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ABSTRACT

Demand for cross-sectoral education and training provision is increasing. These new forms of participation are more likely to require flexible delivery, part-time study, short courses, intersectoral movement, and customized student pathways. Education and training are strongly associated with productivity in the new economy, but participation in education and training is not uniform among all social groups, especially the disadvantaged. Government policy goals to support cross-sectoral provision to promote lifelong learning are undermined by different funding, reporting, and accountability requirements of each sector. It is very difficult to construct courses or programs of study that draw from each sector and are offered as a coherent whole. Equity policies and programs are implemented in each sector but are not consistent. Sector-based funding systems are increasingly inadequate to support needs of disadvantaged learners. A proposed incremental approach to developing a cross-sectoral funding model would pursue greater consistency among sectors in these six areas: funding levels per student; accreditation frameworks; processes for determining funding priorities; mechanisms for allocating resources to institutions; student contributions; and equity strategies. Appendixes include a broad outline of the funding arrangements for each sector. (Contains 100 references.) (YLB)

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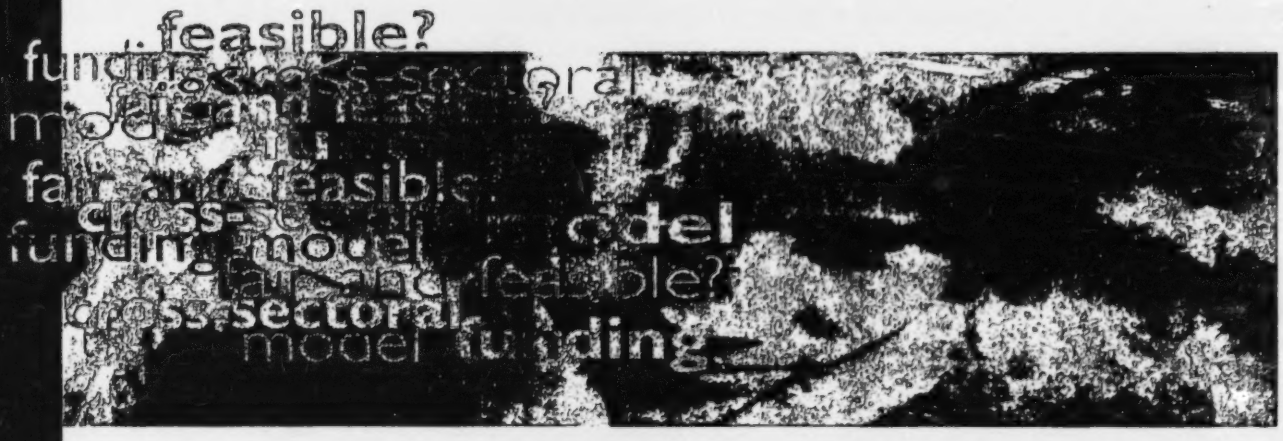

A cross-sectoral funding model

Is it fair and feasible?

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Louise Watson

Leesa Wheelahan

Bruce Chapman

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Executive summary

Background

The National Research and Evaluation Committee (NREC) commissioned the authors of this report to investigate the development of a cross-sectoral funding model for post-compulsory education and training in Australia. The project aimed to identify issues arising from differences in the funding arrangements for the four sectors (i.e. senior secondary schooling, vocational education and training [VET], higher education and adult community education [ACE]) and to discuss whether a cross-sectoral funding model would address any of these issues.

The research questions are:

1. What are the arguments for a cross-sectoral funding model in Australian post-compulsory education and training?
2. What are the impediments to implementing a cross-sectoral funding model and how might they be overcome?
3. What is the likely impact on student demand of a cross-sectoral funding model?
4. What impact would a cross-sectoral funding model have on the type and nature of provision (courses and programs of study) of post-compulsory education?
5. What are the costs and benefits of a cross-sectoral funding system for individuals, institutions, industry, government, and society?

To generate debate on this topic and to inform the research process, the research team involved members of the education policy community in each stage of the project. During the first few months of 2001, the researchers interviewed stakeholders from all the sectors about funding issues in their sector and in the area of cross-sectoral provision (a list of interviewees is in appendix E).

In July 2001, the researchers distributed an interim report addressing the first two research questions. We gave presentations on the topic at several research and policy forums as well as convening an invitational seminar to discuss the findings. This report builds on the interim report by including feedback from the people consulted in July and addresses the remaining research questions. In the original project brief, the researchers aimed to evaluate the costs and benefits of several funding models. However, during the research process, we decided that changing the funding model alone would not resolve many of the issues raised by stakeholders in the consultations—in particular, the urgent need for the policies and practices within each sector to be made more consistent. This report therefore identifies the areas in which further work is required to improve cross-sectoral consistency, many of which are related to funding. Within this context, the report discusses the implications of changing various aspects of the current funding arrangements.

Findings

Sector-based funding evolved during the 20th century to meet the financial needs of institutions and the policy priorities of federal and state governments. The traditional distinctions between the sectors are increasingly irrelevant as institutions attempt to meet changing student needs. These changes include:

- increasing movement of students between the sectors and more types of cross-sectoral provision
- differences in the education participation rates between people who are not in the labour market or have lower skills and people with higher level qualifications, such as university degrees
- the emergence of new demands on post-compulsory education, particularly the need for provision to ensure that all adults in society have 'learning to learn' skills as the basis for participation in lifelong learning

These changes have implications for the way in which education and training is funded. First, education and training provision must become more responsive to the demands of learners for flexible pathways and cross-sectoral provision. Second, we need to explore new ways of supporting the education participation of people with lower level skills.

Cross-sectoral provision refers to all forms of education and training that involve duplication, linkages or overlap between the four sectors, such as credit transfer, articulation, bridging courses, dual-sector awards and nested awards. These forms of cross-sectoral provision are generally negotiated between individual institutions across sectoral boundaries. There is very little support for cross-sectoral provision at the system level, which is both a symptom of the difficulties posed by the sectoral divide and a further obstacle to institutions working within the current system.

Sector-based differences in the regulatory, funding and accreditation arrangements impose restraints on educational institutions and are a disincentive to all forms of cross-sectoral provision, particularly to open and transparent credit transfer systems and the development of courses involving more than one sector. All public education and training institutions in Australia are cross-sectoral providers to some extent, but the scope of cross-sectoral activity is limited by the funding arrangements for each sector. In theory there are few impediments to the expansion of cross-sectoral provision. Institutions are free to seek accreditation for their courses from another sector and to develop cross-sectoral programs for their students. In practice, however, these activities are impeded by the structures of sector-based funding. The different funding, reporting and accountability requirements of each sector mean that it is very difficult to construct courses or programs of study that draw from each sector and are offered as a coherent whole. There are an increasing number of dual-sector programs, but they remain underdeveloped because of the structural differences in funding arrangements.

Although equity policies and programs are implemented in each sector, they are not consistent between the sectors. In most sectors, government programs for disadvantaged learners are funded through competitive tendering arrangements that undermine the stability of provision for both clients and providers. In a climate of growing demand for customised courses and flexible pathways through education and training, sector-based funding systems appear increasingly inadequate to support new forms of education and training provision or to meet the needs of disadvantaged learners.

Given the complexity of the current funding arrangements and the fact that each sector is funded to a different degree by each level of government, it is most unlikely that a new funding model could be put in place to encompass all the sectors. Furthermore, it is not clear that changing the funding model alone would be sufficient to address all of the issues raised

by stakeholders. For example, the problems arising from differences in curriculum and course accreditation arrangements would not be resolved by the imposition of a cross-sectoral funding model. We therefore propose an incremental approach to developing a cross-sectoral funding model for education and training. This would involve agencies and governments pursuing greater consistency between the sectors in six key areas:

1. Funding levels per student
2. Accreditation frameworks
3. Processes for determining funding priorities
4. Mechanisms for allocating resources to institutions
5. Student contributions
6. Equity strategies

By developing common principles, policies and practices in each of these six areas, we could make Australian education and training more supportive of cross-sectoral provision. Over time, the system for distributing public funding for post-compulsory education and training should be based on principles that are consistently applied, regardless of the sector in which studies are undertaken.

Introduction

Widespread engagement in lifelong learning is now seen as essential to a country's capacity to meet the economic and social challenges of the 21st century. Gallagher (1999) summarises the five 'drivers' of lifelong learning policy as:

1. structural changes in the sectoral composition of national economic growth, displacing workers from various industries/occupations who need new skills/opportunities for redeployment, and changes in markets for Australian goods and services, requiring new skills sets in the labour force
2. the centrality of knowledge to social and economic progress, its rapid expansion on a global basis, its transforming impact on the processes of current activities and its generation of new possibilities
3. continuous change in the knowledge intensity of work (the now essential need for literacy and thinking in all jobs, and the application of new information and communications technology) requiring skills updating for both enterprise productivity and employee earnings
4. demographic shifts impelling both sounder grounding of new labour market entrants, skills upgrading of current workers, and more active (less dependent) ageing
5. the need for a functioning social democracy providing equality of opportunity (less exclusion) for individuals to participate in education, work and community life

Changing patterns of participation in education and training reflect the growing importance of education and training in the new economy. Traditional divisions between the sectors appear to be less important and there is a growth in demand for short courses and customised units of study. There is an increasing level of student movement between the sectors and most institutions offer forms of cross-sectoral provision. Nevertheless the funding structures that underpin Australia's system of education and training remain sector-specific and there is evidence that this imposes a restraint on the capacity of institutions to respond effectively to student demand. It has been suggested that the implementation of a comprehensive system of lifelong learning in Australia requires 'a substantial reform to the post-compulsory education and training system' (Robinson 1999, p.1).

This report examines the tensions within Australia's sector-based funding arrangements. First the changing context of education and training provision is discussed. Then the structural impediments to cross-sectoral provision is identified. Finally, the potential for developing a cross-sectoral funding model for post-compulsory education and training is explored.

Cross-sectoral provision of education and training

This chapter discusses the usefulness of sector-based funding arrangements in education and training—for school education, vocational education, higher education, and adult community education (ACE).

What is a sector?

The term 'sector' is used to differentiate between major types of productive activity in the Australian economy. Education is identified in the Australian National Accounts as an industry sector that contributes $27 billion to national GDP (ABS 2001a). While education is undertaken in schools, vocational education and training (VET), higher education and ACE, the use of the word 'sector' to differentiate each from the other suggests that a different type of productive activity is performed by institutions within each sector even though sufficient commonality exists to warrant their grouping in the one national industry sector. The different types of education that are the hallmarks of each sector have evolved over the centuries to become four broad types of provision:

1. *Vocational education and training* is primarily identified with the production of skills and knowledge to be applied in the workplace.
2. *Schooling* is characterised by formal tuition offered on a daily basis within classes supervised by qualified schoolteachers, primarily to young people and is designed to provide students with a broad general education.
3. *Adult community education* encompasses many types of education and training for adults—basic literacy education, foundation-level studies, accredited training and general education.
4. *Higher education* is primarily identified with 'higher learning' in disciplinary studies such as the arts, science, humanities and social sciences and with the production of new knowledge through research. However, universities are also the major providers of vocational training for the professions—at both the pre-service and continuing education level.

While the above represents broadly the educational orientation of each sector and consequently the justification for their differentiation, there is considerable overlap in what each of the sectors do. In Australia, there are few legal impediments to an institution offering courses that are traditionally associated with another sector. Each sector has its own course accreditation frameworks, but any institution—public or private—has the right to apply for accreditation to award qualifications in any of the sectors, provided they meet the accreditation and quality assurance guidelines associated with sector-specific qualifications (Watson 2000, 2001b; Wheelahan 2000a). Institutes of Technical and Further Education (TAFE), providers of ACE as well as private providers may apply to state governments for accreditation to offer higher education courses. Community providers, universities and secondary schools are able to offer accredited vocational training once they attain the status of a registered training organisation (RTO). TAFE institutes can provide certificate and diploma courses at the post-graduate level. Providers in all sectors offer non-accredited adult education and training courses.

The traditional distinction between vocational education (associated with TAFE institutes) and general education (associated with schools, community providers and universities) has never been very useful for differentiating between what these two sectors do. Since their inception in the 19th century universities in Australia have had a strong vocational orientation (Hyde 1982) and they have become more overtly vocational in recent decades, as illustrated by the rise of business studies and the expansion of post-graduate professional education. The elevated status of liberal education over vocational learning appears to originate more from the desire to reproduce social class through an educational hierarchy than from any concrete pedagogical principles (Teese 2000; Rushbrook 1997; Anderson 1998; Hyde 1982). While the distinction between vocational and general education may have been a useful means of differentiating between educational outcomes in the 'old' economy, the labour markets of the new economy require graduates to possess a range of skills derived from both general and vocational learning (Raffe & Howieson 1998; Temple 2001; Jackson 1999; Young et al. 1997).

The differences between what the institutions in each sector do are diminishing. Institutes of TAFE are now actively engaged in research (Smith 2001). The ACE sector still provides more broad education and enrichment programs than it does accredited vocational education, but all sectors provide enabling courses and non-award adult education. Schools focus on general education and at the senior school level, curriculum is still principally academically oriented. However, the increased retention rate to Year 12 is placing demands on schools to diversify their senior secondary curriculum. Governments have sponsored a substantial increase in the provision of VET in schools. In 1998, 10% of 15–19-year-olds in schools were enrolled in VET programs—an increase of 30% over 1997 (NCVER 1999b). In Victoria in 2000, 20% of senior secondary students enrolled in VET-in-Schools programs (Teese 2001). Community providers delivered vocational training programs to 15% of all VET students (3.4% of total VET student contact hours) in 1998 (NCVER 1999a).

The provision of adult education and training is spread across all the sectors. Australian universities receive over $94 million per year from providing adult education and training courses (Watson 2001b). In the VET sector, the Kangan reforms that led to the establishment of TAFE as a national system were underpinned by a commitment to general education and the development of the individual. While TAFE institutes have since been subsumed into an industry-driven system of VET, TAFE institutes still offer general education from Year 12 through to 'further education' courses for adults.

Education and training is so important to the new economy that institutions in all sectors are developing stronger relationships to industry. Until recently, a key distinguishing feature between TAFE and higher education was in the extent of TAFE's links with industry, both in relation to program design and in its mission to meet industry needs. However, higher education institutions are now making their courses more vocationally relevant by involving industry in course development and curriculum design. Many higher education courses are accredited by professional associations and industry bodies. Universities provide post-graduate professional development programs to meet specific industry needs. As a result, universities are dealing with issues such as accrediting work-based learning and the recognition of prior learning that are similar to those faced by TAFE institutes (Doughney 2000). Secondary schools and community providers also work with industry at a local level to deliver work-related training.

Cross-sectoral provision is increasingly common in other Western countries. Forms of vocational education are now widespread in senior secondary schooling in Europe. In the United Kingdom, a vocationally oriented senior secondary qualification is being developed as an alternative to the traditional academic curriculum. Moreover further education colleges deliver 13% of all higher education provision in the United Kingdom, which accounts for 5% of further education provision overall. There are now more higher education students studying in

further education colleges than there were in higher education as a whole in 1963 (Melville & Macleod 2000). In the United State of America, community colleges offer associate degrees that articulate into four-year university degrees. In September 2001, the United Kingdom government introduced foundation degrees, which while accredited and awarded by a higher education institution, are delivered in both the higher education and further education sectors. These degrees are employment-related higher education qualifications that have been developed in partnership with employers and are designed to provide students with the skills, technical knowledge, and underpinning knowledge to work at the associate professional and higher technician level.

The changing nature of education and training provision in Australia and abroad has contributed to a perception that the traditional distinctions between the sectors are breaking down. If these trends continue, it is predicted '[t]he differentiation between the sectors will become less distinct, with programmes in each sector having both generalist and vocational characteristics' (Karmel 1998, p.5).

In summary, the traditional educational orientation of each sector is no longer sufficient to describe what institutions within each sector do. All educational institutions have diversified their offerings to meet the changing demands of students over the past two decades. The sectors can no longer be defined in terms of the type of education that they deliver. Today, differences in their regulatory, funding and accreditation systems define the sectors to a greater extent than do differences between the courses of study they offer to students.

What is cross-sectoral provision?

Cross-sectoral provision usually refers to an institution offering programs, courses or subjects derived from the accreditation and curriculum model in another sector. As noted in the previous section, this type of cross-sectoral provision has always occurred and has grown considerably over the past two decades. An example of this would be when a university offers an Australian Qualifications Framework (AQF)-based, nationally accredited (and hence, nationally recognised) Certificate IV qualification. Schools now offer a range of VET certificates at various levels, and community providers can offer VET Certificates to AQF Level IV.

New types of cross-sectoral provision have emerged in recent years, associated with the development of new institutional arrangements for delivering education and training. Five dual-sector institutions now comprise both the TAFE and higher education sectors within one institution. Several multi-sector campuses have been established where institutions from different sectors are co-located on one site. This model is becoming very popular in regional Australia. There are at least three examples of co-locations in Western Australia, five in New South Wales, one each in South Australia and Queensland, with more in the planning stages in Queensland and New South Wales (Wheelahan 2001b).

These new institutional arrangements have spawned a range of new approaches to cross-sectoral delivery. The new cross-sectoral programs include dual-sector awards (combining two awards, one from each sector), nested awards (that commence in TAFE and exit in higher education with various exits along the way) and awards that draw from both sectors in the one course. An example of this would be an Advanced Diploma offered in a dual-sector university that included competencies from a training package funded through student contact hours (for which students pay TAFE fees) and higher education subjects funded through equivalent full-time student units (EFTSUs) (for which students pay HECS). Students are now able to access articulated courses that may include up to four sectors of post-compulsory provision.

Cross-sectoral provision has always been a feature of Australian education and training. However, most traditional forms of cross-sectoral provision (such as adult education in

universities) are provided on a fee-for-service basis and not funded by government. This meant that institutions avoided most of the regulatory hurdles associated with trying to access funding from another sector. Historical examples of cross-sectoral provision funded by government are rare. Governments have only sponsored cross-sectoral provision in response to major crises, and the activity has ceased once the crisis was over. For example, owing to a severe shortage of high schools to accommodate demand from the post-war baby boom in the 1960s, state governments converted trade schools into technical secondary schools. The students in these schools received full-time tuition, many entered trades and a large number matriculated to university. The 'tech schools' were closed or amalgamated with secondary schools during the 1980s. During the Second World War, the Commonwealth Government was also a major provider of adult education, through the Australian Army Education Service. Foley and Morris (1995, p.110) describe this as 'a full-scale experiment in comprehensive adult education affecting a broad cross-section of Australian society'. Commonwealth involvement in funding adult education ceased when the war ended.

Sector-based funding arrangements dominate the provision of education and training in Australia. Although cross-sectoral provision is increasing, the sector-based funding arrangements do not generally support it, often in spite of the government's policy intentions. For example, all governments explicitly support the provision of VET in schools and provide funding for this purpose. However, the institutions and the students involved in VET-in-Schools programs confront a range of anomalies and inequities associated with sector-based funding (discussed in chapter 'Impediments to cross-sectoral provision'). A stakeholder drew the analogy between sector-based education and training and a transport system that only allows taxis to travel in particular zones. If you get in a cab in one zone, you can't make it to your destination without paying the cab fare, getting out of the cab and taking another cab that is allowed to drive into the next zone. The inefficiency of taking two taxis to get to a destination when one cab could just as easily take you is caused by the transport regulations system. In a similar way, students are prevented from getting to their educational destinations by regulatory barriers that restrict co-operation between the sectors. It is likely that the sector-based funding arrangements act as a brake on cross-sectoral provision in publicly funded institutions. Among private providers, by contrast, where there is no public funding—and therefore no restraints on type of provision—most institutions are cross-sectoral (Watson 2000).

Cross-sectoral provision is emerging as institutions adopt a 'learner-centred' approach to education and training. This involves providing courses that maximise a student's opportunities for achieving a learning outcome. Examples include providing a guaranteed pathway from a VET qualification through to a higher education degree or providing an enabling course to assist a disadvantaged learner to gain access to accredited training. 'Learner-centred' education pathways are important for two reasons: first, to meet the changing nature of demand for education and training among the general population; and second, to facilitate greater participation in education and training among people from disadvantaged social groups. These issues are discussed below.

Changing demand for education and training

Twenty years ago, student participation in post-compulsory education and training followed a relatively simple pattern. Of the cohort of 15-year-olds finishing their compulsory schooling in 1980, only 36% stayed at school to complete Year 12 and most of these students proceeded to university and completed a first degree before entering the workforce. The remaining students left school after Year 10 to enter the labour force either in an apprenticeship leading to a trade qualification or in unskilled jobs. In general, young people were expected to complete their education by their early twenties.

Young people are now more likely to complete secondary school or to engage in some form of post-compulsory training. In 1999, 87% of secondary schools in Australia provided VET programs (Senate 2000). Of young people, 72% now complete Year 12, and many of these students proceed from Year 12 to TAFE or other forms of training. In 1998, 49% of all VET clients had completed Year 12 (NCVER 1999a, p.24). A survey of TAFE graduates in New South Wales and the Australian Capital Territory found that 62% of respondents had completed their Higher School Certificate (Cohen et al. 1997). The growth in part-time jobs means that young students are increasingly combining education and training with employment.

The traditional route from school to university is weakening as young people follow new pathways through education, training and employment. There are more young people undertaking courses in the VET sector than in the higher education sector—although greater numbers of VET students study part time. In 1999, 412 658 people under the age of 25 attended university—representing 60.1% of all higher education students (DETYA 2000, table 26). In 2000, 659 750 students under 25 engaged in VET courses, comprising 37.7% of all VET students and 53.5% of all student contact hours (NCVER 2001b).

In 1999, school leavers comprised only 35% of all university admissions at the undergraduate level. The remaining students were admitted on a range of criteria as illustrated in table 1. Over the past decade there has been a steady increase in the number of students going to university who have previously studied in TAFE. In 1997, 17.6% of students admitted to Bachelor degree courses in universities (regardless of the basis of admission) had previously undertaken TAFE study, compared to 12.1% in 1992 (Cummins, Rutten & Wagstaff 1998).

Table 1: Students commencing a course at Bachelor level or below by admissions criteria 1998

Year 12 at school 1998 or 1999	Year 12 at school 1997	Higher Education (complete and incomplete)	Mature age	TAFE course (inc. Year 12 at TAFE)	Other
[redacted]		[redacted]	[redacted]		[redacted]

The number of students moving from higher education to VET studies is also significant. In Australia in 1998, 38% of all students in publicly funded VET courses had a prior qualification ranging from trade certificates through to degrees or post-graduate diplomas. Of these students, 15.3% (67 500 students) held a degree or post-graduate diploma (NCVER 1999a). Over half of these students have completed multiple qualifications (Golding 1999). In Victoria in 1993, Golding found that 24% of all TAFE commencements at certificate levels and above were by individuals who had previously undertaken university study—both complete and incomplete (Golding 1993).

Although the students with university experience enrolling in TAFE courses are not a homogeneous group, they share common goals:

> *the overall participant perception of the move from university to training was of a cheaper, quicker and easier way to gain a new vocational skill or qualification, by means of a more flexible learning and study mode and with better job prospects.*
>
> (Golding 1999, p.11)

In contrast, the transfer from TAFE to university is characterised as 'primarily an attempt to improve employment status in a related field' (Golding 1995).

Demand for education and training is changing owing to the nature of work in the new economy. Continuous upgrading of skills is now a part of working life. The 'front-end' model of education and training—where most of a person's education is undertaken when they are

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young—is no longer sufficient to meet industry needs. Workers are now required to upgrade their skills on a continuous basis, through short, customised courses delivered in a variety of settings. This is compounded by the ageing of the Australian workforce where older workers are required to upgrade their skills. As older workers are less likely to possess initial qualifications, institutions need new ways of recognising prior learning and of providing pathways to accredited training.

In many countries, governments now recognise the need for all young people to obtain a 'threshold qualification', beyond the end of compulsory schooling—the minimum level of education necessary to have a reasonable chance of gaining employment or access to further study. This is usually defined as the completion of a full senior secondary qualification or its equivalent. During the 1990s, some of the Nordic countries developed effective safety net mechanisms that aimed to 'rapidly re-insert early leavers into the mainstream of education so that they can gain an upper secondary qualification for work or further study' (OECD 2000, p.18). In these arrangements, entitlement to government income support is usually linked to an individual's participation in further education or training (Curtain 2001; OECD 2000).

Educational disadvantage in the new economy

The economies and their labour markets once served by different sectors of education changed during the 20th century. The changing nature of work has reinforced the importance of education and training to skills development and economic productivity. This has created a new imperative for mass participation in continuing education and training, or lifelong learning. Participation in education and training is now linked to success in finding employment and to effective long-term participation in the labour market.

The capacity to participate in lifelong learning presupposes basic levels of literacy and numeracy, yet in 1996 almost 44% of 15–64-year-olds had 'poor or very poor prose literacy skills (in English) and could be expected to experience some or considerable difficulties in using many of the printed materials encountered in daily life'. Only 19% had good or very good prose skills 'and would be capable of managing all the literacy demands of everyday life' (ABS 1999, p.8).

The ABS measured three aspects of literacy—prose, document and quantitative literacy—on a five-point continuum, where level one denotes very poor skills to level five that denotes very good skills. Those at levels one and two could be expected to experience 'considerable difficulties in using many of the printed materials encountered in daily life' (ABS 1999, p.13).

Literacy levels are associated with labour market status and education levels. Labour force participation ranged from 86% to 89% for those with literacy skills at level four and five (depending on which aspect of literacy was being measured) compared to 56% to 60% for those with level one skills (ABS 1999, p.31).

Table 2: Educational attainment and literacy skill measured on the prose scale for people aged between 15 and 64 in 1996

Educational attainment	Levels 1 & 2	Level 3	Levels 4 & 5	Total
	%	%	%	%
Bachelor degree or higher	14.4	36.6	49.1	100.0
Other post-school qualification	39.1	42.5	18.4	100.0
Completed highest level of secondary school available	32.9	43.8	23.3	100.0
Did not complete highest level of secondary school available	65.9	27.7	6.4	100.0
Still at school	43.4	42.1	14.5	100.0

Source: ABS 1996 (n.e.)

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Education attainment is also associated with literacy, as illustrated in table 2. More than 14% of university graduates were not considered to be functionally literate, and more than a third were at level three at which they could be expected to 'cope with many printed materials found in daily life and at work, though not always with a high level of proficiency' (ABS 1999, p.14). Almost 40% of those with post-school qualifications were not functionally literate, as were almost 33% of those who had completed secondary school at the highest level.

This presents a challenge for post-compulsory education in general, and tertiary education in particular. Although the number of students has increased, the level of academic preparation and readiness to undertake tertiary studies may not have kept pace. Not all students who complete secondary school have the skills needed to undertake diplomas and degrees, and there are many adults who are ill equipped to engage in lifelong learning.

Given the strong link between education participation and success in the labour market, there is concern worldwide about the uneven distribution of educational outcomes within societies and between nations. In a well-known international report, UNESCO (United Nations Educational, Scientific, and Cultural Organisation) Commissioner Jacques Delors wrote:

> *The major danger is that of a gulf opening up between a minority of people who are capable of finding their way successfully about this new world . . . and the majority who feel that they are at the mercy of events and have no say in the future of society.*
>
> (Delors 1996)

In spite of the overall increase in education participation in Australia over the past decade, some social groups are less likely to participate than others. People with lower level skills or working in jobs that require Year 10 or its equivalent have the lowest rate of participation in all forms of work-related training. In the 12 months prior to May 1997, 90% of people with university degrees participated in some form of education or training, compared to only 64% of people in low-skilled jobs (ABS 1998). Participation in training is also related to labour force status. In 1997, only 21% of those marginally attached to the labour force were in training compared to 55% of wage and salary earners.

In Australian workplaces, the distribution of education and training opportunities favours people with university qualifications over people with lower level skills. People with the lowest level qualifications are the least likely to undertake work-related external training courses. And when they do, they are more likely to finance it themselves (Watson 2001a).

Governments are keen to promote lifelong learning for social and economic reasons, and have in place a range of strategies to assist disadvantaged learners (discussed in the chapter 'Impediments to cross-sectoral provision'). However, in Australia, these strategies tend to remain marginal to mainstream funding arrangements in each sector. Implementing targeted programs for disadvantaged learners with effective learning and employment outcomes involve complex and co-ordinated sets of activities such as:

- raising educational participation rates
- providing incentives to complete a threshold qualification
- negotiating links between training and employment
- reducing the incentives to make inactivity a preferred option

(Spierings 2001)

Australia's arrangements for supporting young people at risk have been criticised as:

- being uncoordinated or poorly linked
- providing inadequate information to young people
- not recognising problems until they reach crisis point
- not adequately monitoring the pathways and destinations of early school leavers

(Eldridge 2001)

In Organisation for Economic Co-operation and Development (OECD) reviews, Australia is considered behind many Northern European countries (particularly Scandinavian countries) in terms of the level of support that it offers to early school leavers.

As education and training participation is a key to lifetime success in the labour market, we need to examine new ways to support people with lower level skills. Although the current funding arrangements attempt to cater for people who are not in the labour market or people with low skills, no sector has specific responsibility for:

- encouraging people who are the least likely to participate in education and training
- ensuring everyone has the opportunity to obtain at least functional levels of literacy

Emerging tensions in sector-based funding

The different government funding arrangements for the four sectors of schooling, higher education, VET and ACE evolved in the context of a 'front end' model of provision where the majority of students engaged in learning when they were young (see Austin 1961; Birch & Smart 1977; Foley & Morris 1995; Fooks 1994; Hyde 1982; Goozee 1993). In contrast, the new policy agenda for education and training places a high priority on educational attainment and lifelong learning (Gallagher 1999; Robinson 1999).

In the past, our education and training system forced people to engage in clearly differentiated tracks whereby access to higher education was only possible through successful completion of senior secondary schooling. The tracks were justified by the now out-dated distinction between 'general' and 'vocational' learning in the institutional framework. A broad, deep and general education was offered to students on a professional career track—in senior secondary schools and universities—whereas 'vocational' training offered by TAFE institutes was narrow in scope and was linked to the requirements of a particular job. The ACE sector provided both types of education on a user-pays basis. This system ensured that the institutions in each sector served distinct client groups who were destined for different occupational destinations.

The 'tracked' system of education and training based on the academic/vocational distinction created differences in the organisation of learning between the sectors that now act as impediments to the movement of students into higher level courses. Differences in course delivery costs, different industrial awards for teachers in TAFE and higher education, different processes for resource allocation and different levels of student contributions all contribute to the perpetuation of artificial divisions between the sectors. The teaching and learning processes of VET and higher education are also different, with university students expected to be independent learners with minimal support from teaching staff, while TAFE curriculum is traditionally delivered in small classes with higher levels of individual support. The different assessment and certification systems of VET and higher education are also a major obstacle to the reform of post-compulsory education and training, as discussed later in this report.

Owing to the changing nature of work in the new economy, young people can no longer be confident of getting a job without possessing educational qualifications (McClelland, McDonald & MacDonald 1997; Spierings 1999; Vella & Gregory 1996). Continuous participation in education and training appears to be a key to long-term success in the labour market (McKenzie & Long 1995). Young people who leave school early without a job to go to are most at risk of being excluded from pathways to education and employment. If they are not successfully re-integrated into education, training or employment, these young people are at high risk of poverty and unemployment throughout their lives (Spierings 2001).

Government policy is now focussed on promoting lifelong learning among people who would previously have never proceeded to post-compulsory schooling (ANTA 1998; Kemp 1999). Lifelong learning policies are pursued by providing alternative educational pathways for young

people in the senior secondary years through programs such as VET in schools. Labour market programs also focus on providing education and training opportunities for people who are retrenched or unemployed. Educational institutions are encouraged to provide pathways for students from initial education through to further education and employment. However, these policy goals are difficult to realise in the context of a funding system that is divided along sectoral lines. As Kulevski and Frith (1998, pp.2–3) note in respect of higher education and vocational education:

> *. . . although progress has been made, the VET/higher education interface is still struggling at the margins. This has been made worse by the different funding, regulatory and administrative arrangements for the two sectors.*

Summary

Demand for cross-sectoral education and training provision is increasing, particularly in the areas of skills upgrading and lifelong learning. These new forms of participation are more likely to require flexible delivery, part-time study, short courses, inter-sectoral movement and customised student pathways. The traditional model of 'front-end', full-time study for awards is declining in importance. The traditional divisions between the sectors are increasingly irrelevant as institutions provide expanded learning opportunities for students that encompass more than one sector. Differences in regulatory, funding and administrative arrangements characterise the sectors more than differences in what their institutions deliver.

As education and training is so strongly associated with productivity in the new economy, disadvantaged learners need to participate in education and training in order to compete in the labour market. But although the new economy is creating more opportunities for education and training, participation rates are not uniform among all social groups.

Governments have introduced policies to support cross-sectoral provision in education and training as a means of promoting lifelong learning. But these policy goals are undermined by the sector-based funding arrangements. The implementation of programs such as VET in schools has produced anomalies and inequities for both institutions and students associated with sector-based funding.

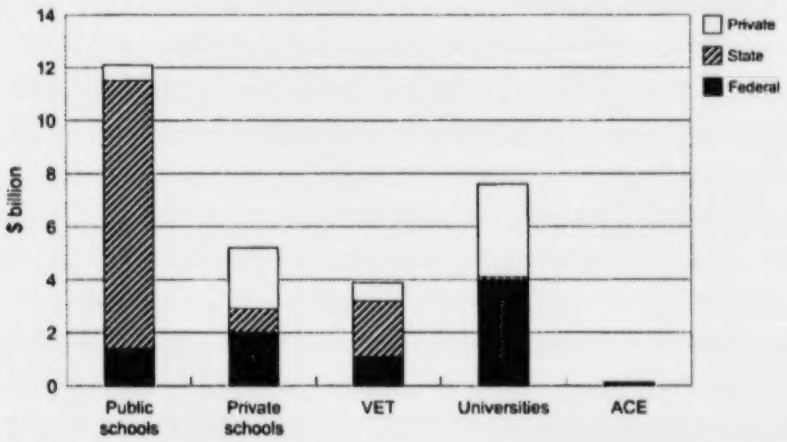
Impediments to cross-sectoral provision

There are many impediments to cross-sectoral provision due to the different historical development of each of the four sectors. Sector-based funding arrangements compromise cross-sectoral program delivery in a variety of ways. A major concern is the additional costs incurred by providers of cross-sectoral education and training in coping with the different funding and accountability arrangements for more than one sector. Students may also be financially disadvantaged when they undertake cross-sectoral programs. The sources of these anomalies and inequities are discussed below. A more detailed description of sector-based funding arrangements is provided in the appendices to this report.

Different sources of funding

Education and training in Australia is provided at a cost of approximately $30 billion per year. Of this funding, 46% is sourced from state and territory governments, 29% is sourced from the Commonwealth Government and 25% is obtained from private sources, usually collected through fees and charges. Each of the education and training sectors receives funding from the same three sources: Commonwealth; state; and private. However, the amount of funding and the proportions obtained from each source differ between the sectors. These differences are illustrated in figure 1 and table 3.

Figure 1: Sources of education funding by sector, Australia 1995–96



Sources: Adult Learning Australia 1999; Borthwick S 1999; Borthwick J et al. 2000; McIntyre, Brown & Ferrier 1996; SEETRC 1997; Victorian Budget Papers 2000–01; Burke 2001

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Of the $12.1 billion in funding for public schools, the federal government provides less than 12%, state governments provide 84% and approximately 5% is obtained from parents in the form of annual voluntary contributions. Private schools obtain 44% of their income from fees, 39% from the Commonwealth Government and 17% from state governments. Universities obtain 46% of their $7.6 billion in annual revenue from individuals through fees and HECS repayments, 53% from the federal government and around 1% from state governments.

Estimates on VET expenditure are difficult to precisely determine, as this figure sometimes does not include money spent by enterprises on in-house uncredentialled training. The quantum of such training is a matter of estimate. If estimates of privately funded enterprise-based uncredentialled training are included then, according to ANTA reckoning in 1998, some 45% of expenditure on VET was by private enterprises, 44% by the Commonwealth Government and state and territory governments, and 11% from individuals through fees and charges. Of government expenditure 62% was by state and territory governments and 37% by the Commonwealth (Senate 2000).

NCVER estimates that up to 9.5% of Australia's adult population were enrolled in some form of ACE activity in 1998, involving an estimated 25–30 million hours of training (Borthwick 2000). Based on an average cost per student contact hour (SCH) in ACE of $8.00, the resources involved in ACE amount to an estimated $240 million per year.

As the ACE sector has an estimated annual operating revenue of $240 million per year, the sources of funding for ACE cannot be seen on the above chart, but are shown in table 3. An estimated 73% of ACE revenue is obtained from course fees and other charges, 22% is provided by state governments and around 5% of revenue is sourced from the Commonwealth.

Table 3: Sources of education funding by sector, Australia 1998–99

Source	Public schools	Private schools	Vocational education	Universities	ACE
Federal	11.4%	38.0%	38.7%	52.0%	4.8%
State	83.0%	17.4%	60.3%	1.1%	20.1%
Private	5.0%	44.0%	1.0%	46.0%	73.1%
Total outlays	*$12.1 billion*	*$3.2 billion*	*$3.9 billion*	*$7.6 billion*	*$240 million*

Notes: The estimates in table 3 and figure 1 are indicative only as emphasised by Borthwick & Hughes (1999). Ofs estimates for ACE funding are based on data from Victoria and New South Wales which represent over three-quarters of national ACE provision and estimates of revenue from the GST. It should be noted that federal funding for ACE is not direct funding of providers but is sourced entirely from competitive tendering for specific purpose programs such as labour market programs and adult literacy and language programs. A proportion of state funding for community providers is also provided on a program basis, for literacy, special needs and VET delivery. In 1995, in New South Wales, the united main provider grant to community providers from the Board of Adult and Community Education (BACE) represented 51% of all provider funding (McIlroy, Brown & Fornel 1996, pp. 1–11).

Sources: Adult Learning Australia 1999; Borthwick & Hughes 1999; Borthwick & Hall et al. 2000; McIlroy, Brown & Fornel 1996; SEETRC 1997; Victorian Budget Papers 2001-02; Senate 2001.

It is important to note that $240 million does not represent the full scope of ACE provision, as institutions in all sectors provide adult education courses. Universities, for example, earn $94 million per year from continuing education courses—which is reported as income from private sources in the higher education sector (Watson 2001b). TAFE institutes and schools also provide adult education courses.

A major problem posed by the fact that the sectors are funded in differing proportions by different levels of government is the incentive for cost-shifting, by encouraging the movement of students to another sector—which is funded by a different level of government. This acts as a brake on cross-sectoral provision, particularly when the costs of provision in some sectors

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are higher than others (see below). VET in schools, for example, is recognised as an important alternative pathway for students remaining at school in the post-compulsory years. However, the governing bodies for each sector disagree over which sector should bear funding responsibility for VET in schools.

> *In the on-going argument between the Commonwealth, the States and ANTA about who is responsible for funding VET in schools, everyone seems to forget the needs of the individual student.* (Stakeholder interviewed for this project)

School education authorities argue that VET courses are more expensive than traditional secondary education. Although it is difficult to estimate the costs of delivering VET in schools, an Ernst and Young study (1999) estimated that the cost of VET in schools provision was about 50% higher than the cost of general education, but lower than the cost of course delivery in the VET sector—about two-thirds of the cost of general VET (Allen Consulting Group 2000). These cost differences lead to arguments about which sector should meet the costs of provision.

Different funding levels per student

The historical development and different funding sources for each sector has resulted in differences in the costs of provision, illustrated in table 4.

In senior secondary schooling, the average cost of a public school student in 1997–98 was $7595. In private schools, average unit costs per senior secondary students range from $6600 per student in Catholic secondary schools and $9000 per student in non-Catholic private schools (Borthwick 1999, pp.24–25). These figures represent the cost of educating a student for the four terms of tuition provided in a calendar year.

In vocational education and training, costs are calculated on the basis of SCHs. Based on an average cost of $11.40 per SCH and assuming that a full-time load is 720 hours, Borthwick (1999, pp.26–27) estimated the average cost of a full-time VET student to be $8200 in 1997.

In higher education, the average cost of an undergraduate higher education place in 1997 was around $9300 (Borthwick 1999, p.28). We have calculated the average annual cost of a post-graduate course by dividing the total income from fee-paying post-graduate students in 1998 ($152.2 million) by the total number of fee-paying post-graduate students enrolled (20 568 EFTSU). On this calculation, the average cost of a post-graduate course in 1998 is around $7400 per year (DETYA 1999a, 1999b).

In adult community education the average cost of course delivery is estimated at $8.00 per SCH (McIntyre, Brown & Ferrier1996, p.42). The average contact hours per ACE course range from 14 to 22.5 (McIntyre, Brown & Ferrier 1996, p.38). As ACE courses rarely run on a full-time, calendar year basis, it is inappropriate to calculate costs per annum. Nevertheless, for the sake of comparison, we will assume the same number of contact hours as VET for an ACE course run on a calendar year basis—720 per year. This would bring the average unit cost of an ACE course to $5760 per year.

Another way to compare costs between the sectors is on the basis of student contact hours—a unit of measurement that is currently used in vocational education and ACE. One hour of contact per student equals one SCH. There are, of course, substantial differences in the number of contact hours and the costs per hour between courses of study within each sector.

Based on figures from a small number of courses at a small number of universities, Borthwick (1999, p.30) estimates the average university course to involve 430 SCHs per year. This brings the average cost of higher education at the undergraduate level to about $22.00 per hour.

Table 4: Indicative unit costs in each sector, 1995–[illegible]

	Average cost per annual EFTSU ($)	Average SCHs per annum	Average cost per SCH ($)
Senior secondary school sector			
Public schools	7400	1140	6.60
Catholic schools	6600	1140	5.80
Non-Catholic private	9000	1140	7.80
[illegible] sector			
Vocational education	8000	720	11.00
Higher education sector			
Undergraduate	6300	130	22.00
Post-graduate research	7400	26	280.00
Post-graduate course work	7400	260	28.60
[illegible] sector			
Adult education	5700	720	8.00

Notes: These figures are indicative only as some are derived from appropriate data and others from a limited number of observations in a limited number of providers. The average unit cost in each sector is difficult to estimate because each sector uses different definitions of a 'student unit'. There are also significant differences within the sectors in the costs of delivering courses across various fields of study. These issues ought to be kept in mind when considering the average unit costs [illegible] shown.

Sources: Adult Learning Australia 1997; Bradbury S 1997; Bradbury [illegible] et al. [illegible] Kenyon, Brown & Fahrer 1995; [illegible] 1997; Victorian Braille Primary [illegible] 1997; [illegible]

Student contact hours for post-graduate courses vary significantly depending on whether the post-graduate program is based on coursework or research. For a research degree, the amount of contact between a supervisor and student would probably average no more than one hour per week. In contrast, a Masters degree by coursework could involve up to ten hours per week in lectures and seminars. Some PhD programs (e.g. economics) also comprise a coursework component. Although these figures are indicative only, assuming a 26-week university year, the average cost of post-graduate research would be $286 per SCH whereas post-graduate coursework would cost $28.60 per hour. It is important to note that these estimates do not take into account any differences in the fee levels for post-graduate courses but assume an average annual fee of $7400 for all post-graduate studies.

Full-time students attend secondary school for approximately 30 hours per week for 38 weeks of the year—bringing the average yearly amount to 1140 per year. This brings the average cost of senior secondary schooling to about $6.60 per hour in state schools, $5.80 per hour in Catholic schools and $7.80 per hour in non-Catholic private schools.

Integrated provision from the different sectors is rendered very difficult because of different cost structures. As one stakeholder put it, the vertical funding arrangements make it very difficult to transfer funding across vertical lines. He used VET in schools as an illustration. In several states schools will purchase training from a local VET provider, but if that training is provided by a TAFE institute (as opposed to a private provider) the full cost of the training is rarely passed on to schools. Training is provided at marginal cost, usually at the rate at which schools are funded to provide VET, and the TAFE institution infrastructure costs are not passed on. In the view of one stakeholder: 'It is a financial disadvantage for all parties. Sharing of expertise doesn't make good sense to school principals.'

The different costs of various levels of provision within sectors also influences what institutions can do. VET programs delivered by schools and by private providers tend to be at lower AQF

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levels. It costs less to deliver these programs than higher level AQF qualifications. TAFE institutes have balanced this in the past by cross-subsidising higher level qualifications through 'charging fees on scales which keep lower level qualification fees higher than they might be in order to minimise fees for higher level courses which are expensive to run' (Senate 2000, p.241). The Senate Inquiry into the quality of VET quoted a representative from the Network of TAFE Councils in South Australia to explain the problem:

> *If the VET in schools undertakes the first component of the training, which is all of the introductory modules, the actual cost of the delivery of that ranges from $3.50 to $4.50 an hour for the modules. The cost of delivery of the certificate level 2 and 3, which TAFE usually completes, then rises from the $8.60 to between $10 and $13 per module. The same thing happens from private providers, so we are limited in terms of being able to take the higher levels to certificate 3 and 4 because the same price is paid by the government whether they do certificate level 1 or a diploma. If the public system is being increasingly required to deliver the higher levels of training from both VET in schools and private providers, which we are, then the cost of delivery to the TAFE institutes increases. This decreases our ability to provide the number of hours that we normally would.*
>
> (Senate 2000, pp.241–242)

The differing TAFE and higher education awards also make cross-sectoral teaching an industrial issue. This can make it difficult to allocate the most appropriate teaching staff to courses and subjects. It leads to duplication in the sectors, as both sectors must be able to cover the range of disciplines required for under-graduate teaching.

The funding levels per student in each sector vary because of differences in industrial awards, class sizes and SCHs—all of which influence the average course delivery costs in each sector. These differences in funding levels can obstruct the development of cross-sectoral programs because participants from different sectors have different levels of resources available (Wheelahan 2000a). Because of historical differences in the cost structures of each sector, the same course delivered in different sectors will be funded at different rates. Even in circumstances when governments are committed to supporting cross-sectoral programs, such as VET in schools, the integrated provision of cross-sectoral programs is rendered very difficult because of different cost structures and different funding levels per student.

Accreditation frameworks

In Australia, any institution—public or private—has the right to apply for accreditation to award qualifications in any of the sectors, provided they meet specific criteria. However, the accreditation processes are very different between the sectors, and some stakeholders argued that these differences are an impediment to cross-sectoral provision.

Qualifications in VET must be accredited by the National Training Quality Committee and comprise industry-derived competency standards. Institutions and other VET providers are not involved in formulating course outcomes that lead to the issuing of qualifications. Students who are certified as having achieved competency outcomes by one registered training organisation (RTO) will have their outcomes recognised by all other RTOs with full credit. The curriculum model in VET is competency-based training which focusses on demonstrable outcomes rather than course inputs.

Universities, on the other hand, are self-accrediting bodies. The traditional notion is of a self-governing academy of scholars in which experts in the field and their scholarly peers make academic judgements. University processes, in their idealised form as opposed to what may happen in practice, are based on collegiate responsibility. This is derived from the concept of 'the University' as a place of higher learning focussed on the creation of knowledge through research. The curriculum model in higher education is based on knowledge and skills, and tends

to be input-focussed. An increasing number of vocationally oriented courses use competencies as part of their course design, but this is not mandated by the accreditation framework (except in those cases where it is a precondition for accreditation by professional or industry bodies).

The ACE sector offers ACE programs that are either not accredited, or are accredited by a statutory authority at state level. In accrediting ACE programs the statutory authority uses different criteria than that used to develop VET programs—community needs rather than industry requirements are given priority.

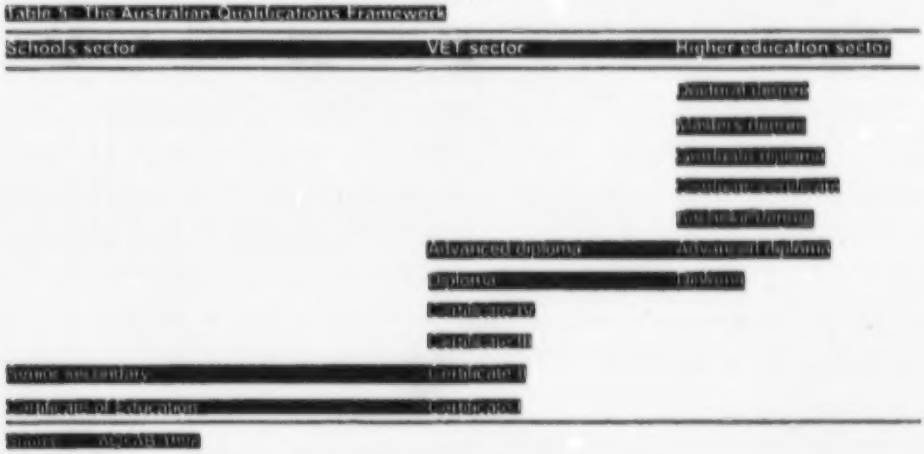
School curriculum is under the control of Boards of Studies or their equivalent in each of the states and territories. Schools use knowledge and skill input models in their curriculum combined with an increasing emphasis on outputs, sometimes expressed as competencies. Their focus is to provide students with a broad general education.

National and state government reform of tertiary education since the 1980s has contributed to the divergence between the accreditation frameworks for each sector. For example, the implementation of the Unified National System that incorporated Colleges of Advanced Education (CAEs) into the higher education sector increased the number of self-accrediting institutions. Previously, CAEs were required to submit course proposals for external accreditation. The implementation of the National Training Framework in VET with its focus on training packages has also driven the accreditation arrangements of the sectors further apart.

The Australian Qualifications Framework (AQF—introduced in 1995—provides a comprehensive, nationally consistent framework for all qualifications in post-compulsory education and training. The AQF was established to rank all existing qualifications in relation to each other, and to render qualifications more transparent and transportable (Marginson 1997, p.215). It designates qualification levels from entry level at senior secondary school through to doctorates, and designates which qualifications are generally offered in the secondary, VET and the higher education sectors.

Under the AQF, the 12 qualifications are identified in terms of their levels, title and guidelines for implementation. Although there are no standardised rankings or equivalences between different qualifications issued by different sectors, the AQF is an important basis for cross-sectoral recognition and credit transfer arrangements. A report commissioned jointly by ANTA and the Australian Vice-Chancellors' Committee, *Pathways to partnerships*, produced a set of draft national policy guidelines on cross-sectoral qualifications linkages and recommended a series of strategies to support the implementation of the national policy (Carnegie 2000).

Table 5 The Australian Qualifications Framework



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As institutions make efforts to increase the ease with which students can transfer between the sectors, differences in accreditation arrangements can become a barrier between VET and higher education. A stakeholder interviewed for this report saw the differences in accreditation arrangements as one of the most significant obstacles to increased collaboration between the sectors. The boundaries between the sectors were not, in his view, restricted to the different funding arrangements. He argued that people can't easily get their learning accredited in any meaningful way, and that this has given rise to 'a bureaucratic nightmare'. There is no national consistency in the way individuals can get their prior learning accredited. Two consequences ensue: first, students are forced to repeat learning they have already done. This wastes their time, and in his view, will and should result in litigation by students against institutions. Second, this leads to waste of scarce public resources.

The development of training packages based on competencies in the VET sector appears to be an impediment to cross-sectoral collaboration. VET providers are required to use training packages where they exist, and industry-derived competencies where they do not as the basis of all courses delivered. Training packages are explicitly linked to specific occupational outcomes, and it is suggested that this narrows the scope of delivery within the VET sector (Hunter 2001). The mandated assessment processes associated with training packages give VET providers very little flexibility in developing collaborative programs or negotiating cross-sectoral movement with institutions in the higher education sector. In the VET system, ***all*** assessment in training packages must be in the workplace or in a simulated work environment, and the new Australian Qualifications Training Framework (AQTF) requires that assessment be developed in collaboration with industry. To the extent that assessment drives learning, this approach reduces the scope of educational programs and excludes teachers from having any input into what the learning outcomes should be, or the type of assessment that can be offered.

Generic credit transfer arrangements between TAFE and higher education at state or national levels are placed under pressure because training packages do not stipulate curriculum or learning outcomes. They contain only the competencies deemed to be required in the workplace by the relevant Industry Training Advisory Board (ITAB). VET providers need only certify that students are competent, as measured against the endorsed assessment guidelines contained within the package. Higher education providers, thus, cannot ascertain the extent to which articulating students share the same knowledge base as those who have undertaken all their studies in the higher education sector. Higher education institutions tend to grant credit on an institution-by-institution basis to students from RTOs with whom they have undertaken a credit mapping exercise, enabling credit transfer arrangements to be put in place.

The assessment requirements of training packages are a significant obstacle to collaboration between higher education institutions and VET providers. Assessment under training packages must be directly related to the stipulated competencies, using the evidence guides contained within them. Assessment must take place in the workplace, or in a simulated work environment. Moreover those assessing students must have prescribed VET qualifications. Therefore, higher education students wishing to articulate to TAFE and gain credit for prior credentialled study undertaken in higher education may have difficulty in doing so. The assessment practices of universities are generally not consistent with the work-based assessment criteria used in the VET sector. In contrast to higher education, the VET system will not allow competency to be inferred from assessment devised by teachers to measure student mastery of knowledge in a particular area (Wheelahan 2000b).

Institutions engaged in cross-sectoral provision have to develop specific teaching and learning strategies and customised student information systems to reconcile the different accreditation frameworks of the VET and higher education sectors. One dual-sector university—Royal Melbourne Institute of Technology (RMIT)—differentiates between units of competence that

are work-related course outcomes (and, thus, graded as 'competent' or 'not yet competent'); and learning units (i.e. units of study) which provide formative learning experiences. VET students at RMIT enrol in a learning unit that delivers both work-related competencies (as specified in a training package and leading to a VET qualification) and a graded assessment of learning outcomes that provides a basis for progression to further study. Within RMIT's teaching and learning strategy, training packages are delivered through learning units that are a recognised part of the institution's academic framework. Through this system, RMIT ensures that competency-based training packages are not an impediment to cross-sectoral provision or to the movement of students between VET and higher education within the institution (Down & Stewart 2001).

The RMIT experience suggests that institutions incur considerable costs when they seek to ensure that competency-based training packages are not a barrier to cross-sectoral provision. To develop its teaching and learning strategy, RMIT had to 'unpack' the training packages to develop its own curriculum delivery models, as well as develop a customised student records system to record and report competencies on the one hand, and to record course progression on the other. Although this represents good pedagogical practice in this institution, the RMIT approach may not be affordable or practical for smaller dual-sector institutions or single-sector VET providers. In most states, institutions providing VET courses are funded *only* for the competencies in the training packages and will not receive additional resources to extend the scope of their curriculum or course delivery. VET providers are, thus, limited in the extent to which they can develop curriculum that will facilitate student articulation to higher education. The strong link between VET funding and the delivery of work-related competencies also limits the extent to which VET providers can develop cross-sectoral programs with higher education.

Under the mutual recognition framework all VET providers, including dual-sector universities, are required to give recognition to students from other RTOs who have been certified competent but who may not have undertaken any additional learning. Thus, while RMIT's teaching and learning strategy reconciles the differences between training packages and higher education for students studying within the institution, it cannot compensate for the limitations of competency-based training in a cross-institutional context.

Work-related competencies are an important outcome of education and training, and are increasingly recognised in both the secondary school and higher education curriculum. However, in its implementation of competency-based training, the VET sector has departed significantly from the learning and assessment methodologies of the other sectors. Thus, although it is possible for education and training providers to offer courses from another sector, the different course accreditation frameworks pose a significant obstacle to cross-sectoral collaboration in course delivery and to the movement of students between the sectors.

Processes for determining funding priorities

The governing authorities for each sector have different methods for determining the annual budgetary allocations to institutions—the details of which are described in the appendices. In brief:

- School funding priorities are determined by state governments and private school governing bodies.
- Even though the federal, state and territory governments enter into three-year funding agreements, at the state and territory level VET funding priorities are determined in an annual round of negotiations with stakeholders in industry and government and in annual institutional profile negotiations.

- University funding is determined on a three-yearly basis based on an agreement about their student load.
- Funding priorities for adult community provision are determined by state and territory governments in those states where the ACE sector is funded. In New South Wales and Victoria, providers receive annual core funding from government, but most public funding for ACE is derived from competitive tendering for short-term program delivery.

It is not easy for dual-sector universities to operate as coherent and unified institutions under current arrangements. Higher education knows its load and capital funding three years in advance, while TAFE load is allocated annually and capital funding is allocated on a project-by-project basis. Universities have considerable freedom in allocating student load between and within fields of study (with some limitations). While there is variation in the freedom TAFE institutes have in allocating their student load between the states, there are still considerable restrictions in the extent to which load can be moved. This makes it difficult for dual-sector universities (and multi-sector campuses and collaborating single-sector institutions) to develop their course profiles in a complementary manner.

Higher education has the capacity to allocate capital funding to complement the university's mission and strategic plan, while in TAFE the funding (at least in Victoria) must be used as specified in the funding agreement, on the campus specified. This makes little sense in dual-sector universities or co-location sites that seek to take a strategic approach to the development of the institution/s. It makes even less sense to designate one building as higher education and another as TAFE when there is no differentiation made between TAFE and higher education students for their access to buildings and services.

In dual-sector institutions, it is difficult to plan the overall course profile and particular programs of study with any certainty because funding for VET programs is allocated annually.

It is inevitable that when educational priorities are decided at different levels of government, and when funding, reporting, and accountability frameworks are not connected and fundamentally different, that different priorities emerge. To some extent these differing priorities represent the differing needs that exist. However, significant public funds are expended on education, and if sectoral priorities develop in isolation from the needs of the community as a whole then significant gaps in provision are likely to occur.

Mechanisms for allocating resources to institutions

The governing authorities for each sector have different methods for allocating funding to institutions that are described in the appendices. In brief:

- Schools are funded according to student (per capita) enrolments in a calendar year.
- VET providers are funded on the basis of teaching time, measured in terms of the number of student contact hours.
- Student load in universities is measured in terms of equivalent full-time student units.
- Where state funding is provided to ACE, it is usually determined on the basis of student contact hours.

In all sectors, some government funding is allocated to private providers, but different arrangements apply in each sector. In schooling, private schools are funded under a different system to public schools and receive varying levels of subsidies. In the VET sector, the user choice system directs around 6% of public funding to private providers based on common costing principles as the TAFE sector. In higher education, government subsidies are delivered to a limited number of private institutions in respect of students undertaking specific courses. In the ACE sector, the majority of providers are private in the sense that they are not managed by government, and funding is usually allocated on a program basis.

These differences in funding allocation mechanisms create considerable difficulties for institutions offering courses from more than one sector or cross-sectoral programs. Reaching agreement on the allocation of teachers' time can be difficult when teaching load is measured differently between the sectors.

Accountability requirements

Differences in funding arrangements inevitably imply differences in accountability requirements. These differences impose significant costs on dual-sector institutions and other forms of cross-sectoral collaboration. While multi-sector campuses occupy the same site, they are funded by, and accountable to, their sectoral funding body. In most cases multi-sector campuses comprise campuses that are part of a broader institution in each sector. For example, the Nirimbah campus in Blacktown in Sydney consists of a campus of the University of Western Sydney, a campus of the Western Sydney Institute of TAFE, and senior campuses of a government and a private school. The multi-sector campuses differ in the extent to which they share facilities, but each must account for the way it spends money to its sectoral body, which, in turn, must account to different levels of government. The effect of this at Coffs Harbour campus is that while student administration staff are in the same office, there are separate staff and separate queues to service school, TAFE and higher education students.

Establishing a pool of shared funds from which money can be drawn to provide integrated programs or services is difficult. Each of the partners must account to their sectoral authorities in requesting and spending resources (Wheelahan 2000a). At most dual-sector universities, administrative and service departments are funded by TAFE and higher education, and make little or no differentiation between TAFE and higher education students who use the services. Salaries must be aggregated and dis-aggregated (for reporting purposes) for libraries, student services, personnel, planning, student administration, property and works, finances and the like. While almost all teaching in dual-sector universities is conducted separately for each sector, with teaching staff allocated to TAFE or higher education (and the relevant industrial awards), almost all central administrative and general staff belong to cross-sectoral departments. Auditing , thus, becomes an expensive and time-consuming process, as arbitrary allocations for salaries, interest on university investments, depreciation and building maintenance are made to one or the other sector, when in reality most are dual-sector. These administrative processes must take place regardless of the extent of cross-sectoral course provision.

It is expensive and time-consuming to develop student information systems for managing cross-sectoral provision. One dual-sector university is estimated to be spending $16 million to purchase and customise a student information system. The fundamental reporting dilemma in any cross-sectoral program is: how and to whom does one report the TAFE student undertaking higher education subjects in their TAFE course, and the higher education student undertaking TAFE subjects in their higher education course? The reporting of cross-sectoral programs can be so complicated that in most cases the student information is processed manually.

Student contributions

In all sectors, students make a contribution to the cost of their course provision, discussed in detail in the appendices. The amount and the method of contribution vary between each sector.

- Public school students contribute to around 5% of their course costs through voluntary contributions. Private school students pay fees of between 20% and 70% of their course costs.

- In most states, TAFE students pay up-front fees ranging from 50 cents to $1.15 per SCH, except for New South Wales where fees are determined by course level. Fees vary between states, and in some states may be up to a $1000 a year; however, 20–30% of students obtain exemptions from fees.
- In higher education, students are required to pay approximately 33% of the cost of their course, payable either up-front with a 25% discount or as a deferred income-contingent loan.
- In ACE, most students pay the full cost of their course, except in government-funded programs that contain a component of fee relief.

The differences in student contributions result in many anomalies and inequities for students. The most obvious anomaly is the provision of awards that can be undertaken in more than one sector—such as advanced diplomas in VET and higher education, or AQF Certificate Levels I and II in schools and TAFE institutes. In these circumstances, students are faced with different financing options for the same level of award. A VET diploma can be obtained at an up-front cost of approximately $800 per year—or free for a concessional student, whereas a higher education diploma incurs a fee of over $3000 per year with the payment option of a deferred income-contingent loan.

Students undertaking VET programs in secondary school are usually charged a fee that is lower than the cost of the course undertaken at a TAFE institute. Requiring secondary school students to pay for participation in VET programs could be a disincentive for some students to participate and introduces a different cost structure into senior secondary education.

> *Inequity can be perceived in different ways. One could argue that there should be parity in the fees paid by students attending the same school—why should a VET student have to pay, when a student heading for university gets a free education? But you could equally argue that students undertaking an identical VET course—one at school and one at TAFE—should have to pay the same fees, or the TAFE student is disadvantaged.*
>
> (Stakeholder interviewed for this project)

Students face additional complexities if they undertake cross-sectoral programs. For example, dual-sector awards combine an award from the TAFE and higher education sector and are offered sequentially or concurrently. Students graduate with both awards in less time than it would take to do each individually. Nested or articulated awards are sequential programs that start in TAFE and conclude in higher education and have various exit and entry points. Students pay TAFE fees for that component taught in TAFE, and HECS for that component taught in higher education.

The development of 'dual-sector' and 'nested' awards is severely curtailed by existing funding models. Arguably, dual-sector and nested awards have the capacity to meet emerging labour market needs in a way in which each sector is currently unable to, particularly in the development of para-professional to professional programs of study. Such programs, with multiple exit and entry points, may also provide a framework for effective and efficient use of resources, while supporting access to lifelong learning.

More complex still are programs that are offered in one sector while drawing in elements from the other. For example, there are enhanced pathways that are offered in TAFE that include higher education subjects. Students who undertake these enhanced pathways receive more credit in the destination higher education course. In other cases, students may undertake elective subjects in one or the other sector. The result is that a TAFE student may be undertaking a TAFE course and paying TAFE fees for everything except that component taught in higher education, for which they must pay HECS. The reverse applies to a higher education student undertaking subjects in TAFE.

Equity strategies

Government policies exist in every sector to promote education and training among people who are the least likely to participate. This population group includes people who are not in the labour market, people with poor English, people with low levels of literacy and people with lower level skills. The needs of these learners are targeted through a range of specific purpose programs in each sector, but each sector defines disadvantage in different ways (Watson et al. 2000).

Services for disadvantaged clients are expensive to provide and require long-term investments by providers. A stakeholder interviewed for this project said that a community provider would need to employ a community development officer for up to two years in order to bring in disadvantaged clients—with no guaranteed pay-off for the investment.

Another stakeholder said the provision of further education within VET had significantly declined. She said that 'further education doesn't exist in peoples' thinking' in regard to VET. She explained that literacy was an underpinning skill in training packages, but that it was not included in the funding for training packages. 'In the VET system, VET provision has high status, and further education has low status.'

According to a stakeholder, the capacity of providers to offer existing basic-level programs has been diminished since Commonwealth labour market funding ceased in the mid-1990s. Programs that have since replaced the labour market funding have not had the same focus or reach. Funding available for migrant education and adult education was tendered out, and while the institutions that previously had responsibility for delivery won most of it back, it was at a lower rate per hour.

Higher education provides support for students to acquire skills needed to undertake higher level certificate, diploma- and degree-level studies, yet despite the increasing diversity of the student body over the last ten years, higher education enabling programs have diminished from 6.9% of commencing load in 1989 to 1.1% in 1999 (DETYA 2000, p.23).

Given the importance of lifelong learning to participation in the labour market and in society as a whole, we may need a new approach to meeting the needs of disadvantaged learners in all the sectors. A recent review of equity policies across the four sectors recommended that two new target groups should be identified: people with low skills and people who are unemployed, particularly the long-term unemployed (Watson et al. 2000). The role and purpose of foundation-level studies in each sector also needs to be addressed. A fundamental consideration is the extent to which individual learners should be supported to attain adequate literacy levels to participate in lifelong learning.

Summary

All public education and training institutions in Australia are cross-sectoral providers to some extent, but the scope of cross-sectoral activity is limited by the funding arrangements for each sector. In theory there are few impediments to the expansion of cross-sectoral provision. Institutions are free to seek accreditation for their courses from another sector and to develop cross-sectoral programs for their students. In practice, however, these activities are impeded by the structures of sector-based funding. The different funding, reporting and accountability requirements of each sector mean that it is very difficult to construct courses or programs of study that draw from each sector and are offered as a coherent whole. There are an increasing number of dual-sector programs, but they remain underdeveloped because of the structural differences in funding arrangements.

Although equity policies and programs are implemented in each sector, they are not consistent between the sectors. In most sectors, government programs for disadvantaged learners are funded through competitive tendering arrangements that undermine the stability of provision for both clients and providers. In a climate of growing demand for customised courses and flexible pathways through education and training, sector-based funding systems appear increasingly inadequate to support new forms of education and training provision and the needs of disadvantaged learners.

Towards a cross-sectoral funding model

> *Current economic trends undermine the economic and social division of labour on which tracked systems, rooted in the industrial revolutions of their respective countries, are based. They create a demand for higher levels and new types of skills and knowledge, especially generic and overarching competences, and for their wide distribution across the workforce . . . Post-compulsory education and training systems have grown in functional complexity as well as in scale. They must meet a wider and more complex range of demands, which cannot be met by tracks which serve distinctive purposes and clienteles. Old forms of specialisation by sector, course or institution are no longer viable.*
>
> (Raffe & Howieson 1998, pp.171–172)

Although sectors are traditionally associated with different types of educational provision, these distinctions are becoming blurred in a time of increased student participation, increased cross-sectoral provision and demand for lifelong learning. To meet the needs of their students, many institutions have been drawn into cross-sectoral provision. But the sector-based funding arrangements were not designed for a seamless system of education and training. Sector-based funding evolved to meet the needs of particular sets of institutions offering particular types of provision. In the past, when there was very little movement of students between the sectors, the differences in sector-based funding arrangements were not perceived as a problem.

The nature of education and training provision has now changed, and education policy aims to support lifelong learning. This means meeting the needs of individual learners throughout their lives. Successful participation in education and training is very important to individuals' success in the labour market. Government policy is now focussed on encouraging participation in learning among groups of people who would traditionally drop out of education and training. This requires changing the way in which education and training is provided—through, for example, programs such as VET in schools. It also means providing opportunities for 'second chance' learning, to enable people to re-enter the education and training system. Sector-based funding arrangements tend to undermine these new policy goals.

The sector-based funding arrangements that have evolved in Australia are not conducive to cross-sectoral provision. Sector-based funding systems could well be acting as a brake on the development of cross-sectoral educational programs. Students do not find it a simple or straightforward matter to move from one sector to another, despite the long-held policy objective of the 'seamlessness'. Recent research at a dual-sector university shows that even when an extensive policy framework has been developed and considerable resources invested to support student movement, students require high levels of support from teaching and administrative staff in negotiating the process of moving between the sectors (Wheelahan 2001).

In the opinion of one stakeholder, Australian tertiary education has become institution-focussed and not learner-focussed. Under the present arrangements, courses are designed to express the accreditation and funding arrangements of their particular sector, not student learning needs. Students must match themselves to the institutions' courses, and if they don't fit they miss out, or are required to repeat learning as they go from one to the other. He argued that when a student did a course then the institution should be funded, but that while the sectors were

funded differently, counted learning differently (and not just bodies), and where one used equivalent full time student units and the other student contact hours, then 'we will never crack it. We shouldn't be funding institution's time, but funding students to do courses'.

Another stakeholder explained that sector-based funding arrangements don't encourage collaboration except in project form, and that, consequently, co-operation occurs on a case-by-case basis. Seeking funds on a project-by-project basis is time-intensive and not conducive to collaboration. The primary concern of individuals working within each sector is to fill their funded load, and to comply with their funding sector's funding, reporting and accountability requirements.

> *The different funding sources and different accountability arrangements make it harder to develop cross-sectoral programs within institutions or between them. You need so much good will and commitment to get something going . . . and when people are busy, the additional time involved becomes a real disincentive.*
>
> (Stakeholder interviewed for this project)

Sector-based funding arrangements are also inadequate to meet the needs of disadvantaged learners—people who need support to re-enter education and training. It is difficult to develop customised pathways that support student movement across the sectors. The community-based providers that are well placed to meet the needs of disadvantaged learners are traditionally the most poorly funded by government.

In our consultations, Australia's sector-based funding systems were variously described as 'vertical', 'inflexible', and a set of 'silos' or 'chimney-stacks'. Most stakeholders interviewed for this project acknowledged that the current funding arrangements were not sufficiently focussed on the needs of individual learners.

Approaches to cross-sectoral funding

A cross-sectoral funding model would provide a consistent level of public funding and a consistent regime of student contributions at each qualification level—regardless of institution (or sector) in which the course is undertaken. To achieve such a system, many might perceive the need for a common funding and accountability framework for all post-compulsory institutions and a nationally consistent method of determining funding priorities. However, we will argue for a cross-sectoral funding model that is based on convergence between the sectoral funding systems, rather than the introduction of an entirely new funding framework. Previous attempts to introduce radical change to the funding framework for education and training have had limited success, as discussed below.

One approach to cross-sectoral funding is to pool all resources at the regional level and to give regional bodies the authority to distribute the funding between providers in all sectors. This approach essentially creates a new funding body with authority over all institutions within its area. This model has been introduced in the United Kingdom in a modified form. The new Learning and Skills Council (LSC) encompasses Year 12 schooling (i.e. sixth form), adult and community learning, and vocational education as well as work-related training for young people, workforce development and career guidance. A network of regional councils is responsible for distributing an annual budget of 6 billion pounds to over 6 million individuals. The major limitation of this scheme is that the higher education sector is excluded from the new funding arrangements (Dumbrell 2000).

Following the recommendations of its Ministerial Review of Post-Compulsory Education and Training (Kirby 2000), the Victorian Government is establishing local planning networks throughout Victoria to ensure that all young people are engaged in some form of education and training that leads to positive outcomes. However, the Kirby report foreshadowed the

difficulties associated with bringing all sectors together in a regional planning process. The report (Kirby 2000, p.109) acknowledges that some universities have made efforts to establish direct links with schools and TAFE, but that:

> *The Panel has been disappointed at the limited input to the review from the university sector on its role in education and training pathways for young people in Victoria. This is surprising given its role in providing destinations for almost a third of Victorian school leavers . . . The Panel hopes that universities will be willing to join the local planning networks proposed in section 7, and to participate in the planning and policy advice activities of the proposed Learning and Employment Skills Commission.*

Another approach is to pool all or some funding centrally and to distribute it to providers through competitive tender. In 1992, the National Board of Employment Education and Training proposed that growth funding for education and training be allocated to specific programs rather than tied to sectors:

> *The national interest, in the view of the Board, would be best served if a part of the resources set aside for the education and training sectors were used, alone by institutions or in collaboration with others, to offer courses for first chance education as well as for retraining in* programs *of study (original emphasis).* (NBEET 1992, p.24)

The board's report suggested that institutions could bid for growth funds on a competitive basis and be funded to deliver specific programs of study. Over time, the board envisaged that these cross-sectoral tendering arrangements could be applied to base operating grants. The Commonwealth Government did not take up this proposal.

More recently, the West review of higher education proposed that all school leavers receive an entitlement to post-compulsory education and training. This entitlement could be used to meet the costs of provision at approved public and private institutions in any sector. Public funding would follow students to the institution of their choice. Institutions would be free to set tuition fees. Students who had expended their entitlement would have access to income-contingent loans to cover the cost of their tuition. The West report's recommendation for full price flexibility for education providers would have a significant impact on the delivery of education and training in Australia (Chapman 1997). The West report also recommended that funding responsibility for VET be transferred to the Commonwealth (West 1998).

The West review's interpretation of the 'entitlement' concept is similar to that of a 'voucher scheme' for distributing public funding to the institution of the client's choice. Curtain (2001) differentiates between the concept of 'entitlement' to funding for tuition costs and the concept of 'entitlement' to the attainment of a threshold qualification. He points out that in the Nordic countries, the United Kingdom and the United States, government funding in the form of a universal entitlement is made available to encourage all young people to obtain a qualification level deemed necessary to obtain work or entry to further study. This entitlement is based on the following five principles:

- the right to funding is to achieve a specified outcome
- the take-up of the entitlement imposes obligations on the recipient
- the funding usually follows the recipient of the entitlement
- additional funding is available to address identifiable disadvantages of the recipients
- the entitlement includes funding for support services

(Curtain 2001, p.4)

The implementation of the entitlement to a threshold qualification differs greatly between countries such as the United States—where it is primarily a tax credit—to the Nordic countries where complex safety net programs are provided to young people at risk of leaving school early.

Although several government-commissioned reports have argued that a cross-sectoral funding model would be more effective in supporting the policy goal of lifelong learning (Kirby 2000; NBEET 1992; West 1998), the different governance arrangements for each education and training sector are an obstacle to any major re-structuring of funding for education and training in Australia. Institutions in each sector receive funding from the same three sources—Commonwealth, state, and private (i.e. student fees and private sponsorship). Yet the amount of funding and the proportions obtained from each source differs in each sector, as shown in the chapter on 'Impediments to cross-sectoral provision'. Australia's federal system has resulted in the sectors being funded at different levels by each level of government, with separate governing authorities, different course accreditation and delivery arrangements and separate systems of accountability for education and training providers. Any rearrangement of the funding for each sector would require what one stakeholder described as 'a renegotiated settlement of policy' between the two levels of government. Thus radical proposals to reform the funding system for post-compulsory education and training tend not to receive widespread support from stakeholders or government.

An incremental approach to cross-sectoral funding

In this report, we have identified how the funding arrangements for each sector pose impediments to cross-sectoral provision. As these inconsistencies are largely a consequence of the different funding sources in each sector, it might seem that a rationalisation of the governance arrangements is a pre-requisite for a cross-sectoral funding model. But as there is no central authority with the power to implement a reform agenda across all the sectors, a cross-sectoral funding model would have to be implemented through agreement in Commonwealth/state forums, such as the Council of Australian Governments (COAG) or the Ministerial Council for Education, Employment and Youth Affairs (MCEETYA). Achieving consensus between the Commonwealth and the states on major policy change is difficult. The Australian National Training Authority (ANTA) was established through Commonwealth—state agreement in the early 1990s. However, other educational reform initiatives—such as the National Curriculum process in MCEETYA from 1988 to 1993, or COAG's attempts to reform schools funding in the early 1990s—failed to reach consensus (see Painter 1998; Spaull 1987; Watson 1998). While a complete overhaul of the funding systems that included a review of the sources of funding might be desirable, it would require a considerable amount of political goodwill without any guarantee of a successful outcome.

A more pragmatic approach would be to use the existing Commonwealth/state forums to reach consensus on policy change at a micro-level. We think it is possible to achieve a cross-sectoral funding model in Australia without necessarily changing the governance arrangements for each sector. While fundamental structural change may be desirable and even achievable in the long term, it is not a prerequisite for attaining more consistent funding arrangements between the sectors. In the chapter on 'Impediments to cross-sectoral provision', we identified the main areas in which the absence of consistency between the sectors disadvantages institutions and students, particularly those involved in cross-sectoral programs. If the administrative, funding and regulatory arrangements in some of these areas were made more consistent, Australia would be on the way to achieving a cross-sectoral funding model that met the definition below:

Definition of a cross-sectoral funding model

A system of distributing public funding for post-compulsory education and training based on principles that are consistently applied, regardless of the sector in which studies are undertaken.

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We propose an incremental approach to developing a cross-sectoral funding model. The first step would be to increase the degree of consistency between the funding systems for each sector. This would require examining different aspects of funding and accountability arrangements in each of the following six areas to identify how these arrangements could be made more consistent:

1. Funding levels per student
2. Accreditation frameworks
3. Processes for determining funding priorities
4. Mechanisms for allocating resources to institutions
5. Student contributions
6. Equity strategies

If the funding and regulatory framework in each of these six areas were more consistent, we would have the beginnings of a cross-sectoral funding model. This would not involve a re-allocation of resources between the sectors or a change in the governance arrangements. It would not be necessary to change the sources of funding for each education and training sector. We assume that any reform of accountability arrangements would occur in the context of reviewing processes for determining funding priorities and in achieving more consistency in the resource allocation mechanisms to institutions. The focus of future research and policy debate should be to explore the most desirable direction for reform in each of these six areas. Some preliminary issues to consider in this process are identified below.

Issues to consider in developing a cross-sectoral funding model

The objective in moving to a cross-sectoral funding model is to produce a system for distributing public funding that facilitates the achievement of government policy goals. As we have illustrated in this report, the current sector-based arrangements undermine the policy objective of lifelong learning for all in a number of ways. They act as a disincentive for institutions to develop learning pathways for students that involve cross-sectoral transitions. They produce anomalies and inequities for students undertaking cross-sectoral programs, as illustrated by the issue of the payment of fees by students undertaking VET-in-Schools programs. They create additional costs for service providers in remote and regional areas where multi-sector delivery is emerging as the preferred model of provision. The inefficiencies and inequities of sector-based funding undermine the policy goal of increasing participation in education and training, particularly among disadvantaged learners.

In identifying the most desirable direction for reform in each of the six areas, we should aim to maximise flexibility and equity for students as well as efficiency and effectiveness for institutions. The discussion should be guided by the overall policy goal of promoting lifelong learning. The fact that different arrangements have evolved in each sector provides an opportunity to evaluate the usefulness of different approaches to the education and training environment of the 21st century. The advantages and disadvantages of the current arrangements in each sector must be assessed in terms of the following criteria:

- impact on student demand, particularly disadvantaged learners
- impact on type and nature of provision
- costs and benefits for individuals, institutions, industry, government and society

Funding levels per student

As the sectors are funded in different proportions by both the states and federal governments, there has been no historical impetus for convergence between the cost structures of the four funding regimes. The main cost drivers in education and training are industrial awards governing teachers' salaries, class sizes and the average number of teacher/student contact hours. Other cost factors include the high cost of equipment in some disciplines (e.g. science) and access to funding from private sources. For example, the willingness of clients to pay higher fees in non-Catholic private schools means that the average cost of educating students in those institutions is 15–25% higher than the cost in other senior secondary providers. This range of factors combines to produce different cost structures in each sector; thus, the average costs per student between the sectors vary.

It is difficult to undertake objective analyses of the costs of different types of course provision. The findings of studies on costs of provision such as the Relative Funding Model in Higher Education and the recent consultants' reports on the cost of delivering VET in schools (see Ernst & Young 1999; Allen Consulting Group 2000) are often contested. Tensions emerge in the funding framework when institutions in one sector receive funding to provide courses traditionally provided by another sector, such as VET in schools. While schools receive extra funding to conduct VET in schools, it is not at the rate the VET sector receives, and schools must continue to offer the full range of programs that were in place prior to the introduction of VET in schools. Within many institutions, some higher cost courses have traditionally been cross-subsidised by savings from lower cost courses.

In moving towards a more consistent approach to levels of funding, it will be important to identify the impact of the main cost drivers (teachers' salaries, class sizes, SCHs, and equipment) for different types of courses. It is also important to acknowledge the differential costs of meeting the needs of clients with different capacities for learning. For example, a student with lower levels of English language and literacy would cost more—in terms of SCHs—than a student who is competent in English. These 'intangible' inputs to the cost of learning are rarely acknowledged in the mainstream funding models for any sector.

Learning capacity is heavily influenced by social background variables such as family income and parents' occupation (Cohn & Geske 1990). In a cross-sectoral context, other client characteristics also have an impact on the costs of delivering educational outcomes. The main social groups that require additional resources to succeed in education and training programs are:

- Indigenous Australians
- people with a disability
- women and girls in non-traditional courses
- rural and isolated students
- students from non-English speaking backgrounds (particularly recent arrivals)
- people with low skills
- people from low-socio-economic-status backgrounds
- people who are unemployed or not in the labour force

(Watson et al. 2000)

Membership of more than one of these groups appears to compound a person's level of educational disadvantage. Golding and Volkoff (1998) found that the employment outcomes for VET courses deteriorated significantly for people who were members of more than one disadvantaged group. The different costs of course provision for different categories of client should therefore be acknowledged in determining funding levels per student in a cross-sectoral context.

Existing funding models are traditionally based on input measures such as course delivery costs, but consideration could also be given to funding institutions on the basis of learning outcomes. Maintaining the integrity of assessment procedures is a key issue in moving to an outcomes-based funding model. Outcomes-based models should also take into account intangible 'inputs' such as students' capacity for learning—which has an impact on the cost of course provision—as discussed above. Outcomes-based models would also need to recognise the growing participation in short courses and module—only enrolments where a qualification or course completion is not the student's desired learning outcome.

Accreditation frameworks

The different accreditation frameworks in the VET and higher education sectors act as a brake on developing new cross-sectoral awards, and limit the amount of credit that students receive for prior learning. Universities are self-accrediting institutions with the traditional (and idealised) notion of a self-governing academy of scholars in which experts in the field and their scholarly peers make academic judgements. The academic independence of universities is a fiercely defended notion, belying the fact that many courses are subject to external accreditation by industry bodies and professional associations. Moreover all higher education institutions are now subject to scrutiny by the Universities Quality Agency, ending the notion that universities are entirely self-referencing in the standards they set and the courses they offer.

Qualifications in the VET sector, on the other hand, must be based on training packages that contain industry-derived competency standards. Teachers have no input into the learning outcomes, and student assessment must be made directly against the specified competencies. Assessment must take place in the workplace or in a simulated work environment using the endorsed assessment guidelines, and by VET-accredited assessors. The inflexibility of competency-based training packages limits the capacity for cross-sectoral collaboration between VET providers and schools or higher education or community providers. In any cross-sectoral courses developed between VET and higher education, universities must forgo their traditional control over academic content and outcomes. As VET providers are not permitted to vary learning outcomes, the outcomes from such courses need to be built around a non-negotiable VET core if students are to be awarded the VET qualification as one outcome of the course.

Accreditation processes in higher education are lengthy, taking as long as 12 months in some instances, as courses progress from one committee to the next as part of the collegiate review process. In contrast, VET must use training packages, but once these are in place it is possible to develop and customise delivery strategies relatively quickly, provided these are mapped to the competencies and assessment guidelines. Consequently, VET can develop courses to meet student or industry needs relatively quickly, while it takes considerably longer for higher education to do so, if their accreditation processes are to be complied with.

The schools, VET and higher education sectors are all locked into relatively inflexible frameworks that limit the nature of the courses that can be developed, and hence the capacity of courses to meet emerging student needs. Undergraduate provision in higher education is focussed on the three-year degree. Students who do not complete the three years do not receive certification. TAFE is locked into training packages that are tied to industry-derived competencies and specific occupations. TAFE's capacity to offer broad-based education is focussed at lower levels of provision.

As discussed in the previous chapter, the competency-based framework in VET and the curriculum-driven models in higher education limit the capacity for each sector to recognise

the learning undertaken in the other, and limit the development of cross-sectoral programs. However, there is an important debate over the extent to which one *should* try to develop greater consistency between the accreditation frameworks in the VET and higher education sectors. It could be argued that it is not the role of VET to prepare students to undertake further higher studies, but to prepare students for the workplace and specific industries. In other words, to insist on greater consistency between the two is to reduce VET to a feeder for higher education. On the other hand, increasing numbers of students *do* travel between the sectors, and this is likely to increase, not decrease, in the future. Under such circumstances, students should be able to receive full credit for learning they have already undertaken. Moreover the courses offered by the two sectors appear to be converging in many important ways. Higher education courses have become more vocational with some outcomes specified in terms of work-related competencies, and VET courses have become more general to ensure students have generic learning capacities and less reliance on narrow skills. Thus the gap between the outcomes sought from both sectors is diminishing as they pursue the common objective of preparing their students for work and for lifelong learning.

Under such circumstances it seems appropriate to investigate the extent to which the accreditation models in both sectors can be made more consistent, without at the same time robbing each of the core of their own model. It is possible to conceive of a model in higher education that maintains the collegiate review process as the core, while at the same time allowing greater flexibility for involving industry in developing learning outcomes. Indeed, many higher education courses are attempting to do this, to ensure their graduates are competitive in the labour market. Alternatively, it is possible to conceive of a model in VET that ensures industry-derived competencies remain at the core of provision, but which allow VET providers greater flexibility in developing learning outcomes that go beyond those in training packages, or to develop courses that are not principally designed to meet *specific* occupational requirements, but which have a broader vocational or further education intent. At the senior secondary level, schools systems in some states have already developed a model that incorporates both academic and vocational curriculum approaches in the senior secondary curriculum (Teese 2001).

Processes for determining funding priorities

Schools, TAFE institutes, universities and community providers are all subject to different funding processes. Schools and TAFE institutes receive annual budget allocations after negotiations with their state funding bodies and ANTA. Institutions in the higher education sector, on the other hand, receive funding levels negotiated three years in advance. In developing more consistent processes for determining funding priorities, the issue of annual, biennial or triennial funding rounds should obviously be addressed.

The basis for determining funding priorities in each sector is also very different. Institutions in the higher education sector have autonomy in distributing student load between the various disciplines of study, in the context of a broad institutional profile negotiated with the Department of Education, Training and Youth Affairs (DETYA). In the VET sector, on the other hand, funding priorities are determined in consultation with industry bodies at the state level.

Another issue is the possibility of providing recurrent funding for institutions that currently do not receive any. Of all education and training providers, community providers in the ACE sector receive the least funding certainty. Apart from the limited number of providers in New South Wales and Victoria that receive a small amount of recurrent funding, community providers are generally dependent on a wide range of funding sources. Funding for many ACE programs is obtained through competitive tender.

More consistent accountability arrangements would assist dual-sector institutions to account for the way in which they allocate public resources. While most teaching in dual-sector universities is conducted separately for each sector, with teaching staff allocated to VET or higher education (and paid under the relevant industrial awards), almost all central administrative and general staff belong to cross-sectoral departments. Establishing a pool of shared funds from which money can be drawn to provide integrated programs or services can be difficult when each of the partners must account to their sectoral authorities in requesting and spending resources (Wheelahan 2000a). Accountability arrangements for capital funding should also acknowledge the cross-sectoral use of facilities.

It may be appropriate to consider piloting integrated funding arrangements for specific models of dual-sector provision—one in each of the areas we have identified. This may include an integrated funding model pilot for VET in schools, for a co-located institution, a dual-sector institution, and a single-sector institution delivering programs derived from another sector.

Mechanisms for allocating resources to institutions

The different way in which each sector measures student load creates unnecessary complexity for institutions in delivering cross-sectoral programs. The equivalent full-time student unit is an annual measure used in higher education but has limited relevance to ACE courses and many VET courses, as many students in these sectors take courses on a module basis rather than a calendar year. Student contact hours is a unit of measurement that is currently used in vocational education and ACE, but not in the higher education sector or schooling.

In table 4 in the previous chapter, we compare 'indicative only' costs of course provision between the sectors using both measures: annual EFTSU and the unit of SCH. Either measure could be adopted for use by all sectors. The measure of SCHs is probably the smallest unit of measurement possible for funding education whereas EFTSU is the largest. However, EFTSU can be expressed in fractional terms to cater for part-time enrolments. The question is which measure is the most useful for allocating resources in respect of courses that range in size from a few weeks duration to courses that involve full-time annual enrolments. It may be appropriate to consider different approaches to funding courses within and between the sectors. One option might be to use a different measure of funding for single subject enrolments in higher education and single module (competency) enrolments in TAFE, compared to funding annual enrolments in courses that lead to qualifications. Apart from anything else, this may encourage greater flexibility in higher education in meeting the professional development or general lifelong learning needs of many in the community and open up the market for single subject enrolments, as it is in the VET sector.

Student contributions

The basis for determining government subsidy levels should be reviewed in all sectors, taking into account the private returns to education and training and other government policy objectives. In a cross-sectoral context, it may prove necessary to distribute subsidies according to the level of the award, with the highest subsidies applying at certificate level and below, and the lowest subsidies to Bachelor's degrees. Such a 'pyramid system' of subsidies could be defended on the grounds that individuals obtain higher rates of personal return to higher levels of education. Given the social and economic importance of completing Year 12, governments have sound policy reasons for removing all barriers to the completion of Year 12 or its equivalent in both schools and TAFE. While New South Wales charges fees on the basis of qualification level, most states do not. The cost and scope of a 'pyramid system' of subsidies spanning four sectors should be the subject of further research.

Assuming that governments are prepared to fund some of the costs of education and training, the key question is how that funding should be distributed. One option would be to provide fee-relief at all levels, according to a means test. This arrangement currently applies to most TAFE courses. Fees charged in TAFE are relatively low and a range of exemptions is offered; however, up-front charges of any kind can be a barrier to participation. This is particularly so when potential students need to understand complex information to obtain fee-relief or when the fee-relief arrangements are means-tested. In the first instance, students can be deterred from enrolling because they do not understand diverse payment options. In the second case, when fee-relief is means-tested, it assumes that students will be supported by their family's income, which may not be the case. Other disadvantages of means-testing on family income are the administrative costs of implementing such as scheme and the potential for abuse through tax-minimisation.

In the absence of fee-relief, a remaining issue is whether deferred payment options are available to students whose fees are not fully subsidised, and if so, what form these should take. The essential difference between income contingent and mortgage types of loans is that the income contingent variety serves to protect prospective students from the costs of the exigencies associated with the returns to educational investments. What HECS, for example, offers is a form of 'default insurance', such that former students do not have to bear the costs of reneging on their debt as a result of periods of low future incomes. Research is required to determine if recent HECS repayment changes announced in the 1996–97 Budget potentially has a deterrent effect on VET students. As the first income threshold for repayment of HECS debt has been lowered significantly, if a HECS-type scheme was introduced for VET students—with the current repayment threshold—it is likely that VET graduates would repay a relatively high proportion of their debt quite quickly. (The income threshold of repayments has been reduced from around $28 000 a year to about $21 000 a year. The income profiles of TAFE graduates means that a very large number of them will more quickly repay any income contingent charge.)

The HECS arrangements for Australian higher education could be applied to courses in other sectors, particularly for the higher level VET courses that articulate with university awards. The advantages of such a scheme would be the removal of up-front charges, the provision of default protection for students, and the relatively low administrative cost of collection. However, there needs to be a comprehensive discussion of the advantages and disadvantages of the different payment mechanisms for student contributions. Another issue requiring further research includes the extent to which HECS could be applied to the TAFE system under the existing funding arrangements or whether it could only be introduced in the context of a new cross-sectoral funding model for TAFE and higher education. A further issue for consideration is the potential application of HECS to private providers in both VET and higher education.

Equity strategies

Compared to many European countries, Australian educational pathways for young people have been 'strikingly slow to adapt to the changing nature of work and the shape of the labour market' (Spierings 2001, p.4). There are currently about 200,000 Australian teenagers who are neither in full-time work or full-time education. Six months after leaving school, a quarter of school leavers are either unemployed, in part-time work but not studying, or not in the labour market (Spierings 2001, p.2). However, many state and territory governments now support targeted programs to assist young people at risk of not completing secondary schooling. For example, following the implementation of the Kirby review, the Victorian Government now provides funding to learning institutions in the three sectors of schooling, TAFE and ACE to support individual pathways for young people at risk. It is widely acknowledged that effective programs for young people at risk are expensive and time-

consuming to develop, owing to the range of services they need to provide. The programs demonstrated to be the most effective means of supporting young people at risk—in Australia and other countries—have common features. They:

- are managed locally
- bring together the range of education, labour market and welfare agencies in a co-ordinated service responding to individual needs
- focus on prevention as well as remediation
- involve genuine shared ownership of responsibility and outcomes

(OECD 2000; Spierings 2001)

Governments have in place a range of strategies to assist disadvantaged learners but these are marginal to mainstream funding arrangements in each sector (Watson et al. 2000). Issues such as the lack of certainty over access to funds and the high costs of provision for disadvantaged learners need to be addressed in a more consistent way across the sectors. In spite of the policy commitment to promote lifelong learning for all, no sector has specific responsibility for meeting the needs of people who are the least likely to participate in education and training. Similarly, no sector has specific responsibility for ensuring everyone has the opportunity to obtain at least functional levels of literacy.

While TAFE is often seen as the provider of 'second-chance' education (HRSCEET 1998) and ACE a key provider of basic literacy and numeracy, neither sector is funded to provide education beyond very basic levels, or to prepare students to undertake higher level certificates, diplomas and degrees. The main focus of VET is to provide training for work, and further education provision has diminished as a priority for the sector. Higher education provision of enabling or bridging courses has also declined over the past ten years. A cross-sectoral approach to equity strategies might recognise the need to support all individuals to attain functional levels of literacy and numeracy, through some form of portable entitlement.

A collaborative process

Reform could proceed gradually through the establishment of Commonwealth/state working groups to review the funding arrangements in each of the above areas with a view to agreeing on a more consistent approach. A collaborative effort at the policy level, supported by relevant research, could produce a consistent level of public funding, a consistent method of resource allocation and a consistent regime of student contributions at each qualification level—regardless of institution (or sector) in which the course is undertaken. This process could also produce greater consistency in accreditation frameworks and a cross-sectoral equity strategy to meet the needs of disadvantaged learners. Thus, in spite of different funding sources and governance structures, all post-compulsory institutions would eventually operate within a consistent funding and accountability framework.

Summary

Models of cross-sectoral funding that involve a major re-structuring of the existing funding arrangements have a limited application in the Australian federal system because the sectors are funded in different proportions by two levels of government. We therefore propose a cross-sectoral funding model where public funding for post-compulsory education and training is distributed on the basis of principles that are consistently applied, regardless of the sector in which studies are undertaken.

Given the complexity of the current funding arrangements and the fact that each sector is funded to a different degree by each level of government, we propose an incremental

approach to developing a cross-sectoral funding model for education and training. This would involve pursuing greater consistency between the sectors in six key areas. If all parties worked collaboratively to achieve greater consistency in each of these areas, over time, the system for distributing public funding for post-compulsory education and training would be based on principles that are consistently applied, regardless of the sector in which the studies were undertaken.

Conclusion

Demand for education and training is increasing, particularly in the areas of skills upgrading and lifelong learning. New forms of participation are more likely to involve flexible delivery, part-time study, short courses, inter-sectoral movement and customised student pathways within and between the sectors. The traditional model of 'front-end', full-time study for awards is declining in importance. Although cross-sectoral provision plays a key role in this new environment, the sector-specific funding frameworks limit the capacity of providers to meet emerging student needs. Education providers in all sectors are converging in terms of the types of courses they offer; yet the funding arrangements for education and training perpetuate distinctions between the four sectors.

As education and training is so strongly associated with labour market success, it is imperative that government funding arrangements meet the needs of disadvantaged learners more effectively than they have in the past. The new economy is driving demand for education and training, yet participation rates are not uniform among all social groups. Improving the access and participation rates of disadvantaged learners must be addressed in a cross-sectoral context if education and training is to provide the foundations of lifelong learning for all.

Given the complexity of the current funding arrangements and the fact that each sector is funded to a different degree by each level of government, we propose an incremental approach to developing a cross-sectoral funding model for education and training. This would involve pursuing greater consistency between the sectors in six key areas. Over time, the system for distributing public funding for post-compulsory education and training should be based on principles that are consistently applied, regardless of the sector in which studies are undertaken.

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Appendices

Appendices A–D provide a broad outline of the funding arrangements for each sector. It is not a comprehensive description but, rather, seeks to convey what is distinctive about each sector's funding arrangements and to illustrate the common elements as well as the differences between each sector.

Appendix E provides a list of the stakeholders interviewed in the course of the research for this report.

Appendix A— Post-compulsory schooling

Between 1872 and 1893, each of Australia's six colonial governments legislated to establish government-run school systems. The 'free, secular and compulsory' Education Acts were instituted in the following order: Victoria 1872; Queensland 1875; South Australia 1875; New South Wales 1880; Tasmania 1893; and Western Australia 1893 (Austin 1961). At Federation, colonial governments were spending an average of 10% of total outlays on their education systems (Ratchford 1959).

The development of state secondary education was slower than primary schooling. When the Australian colonies federated in 1901, only a few state secondary schools existed, and the bulk of government resources were spent on primary schools. For many decades, the level of government support for secondary schools fluctuated with economic conditions (Austin 1961, p.243; Tannock 1969, p.184).

In 1944, less than 6.5% of Australian children passed the leaving-level examination (Tannock 1969, p.340). After the Second World War, the final year school retention rate increased steadily and by the late 1950s, had risen to around 11% in most states (Murray 1957, par.297). Demand for senior secondary education grew stronger in the 1960s, as rising living standards enabled more families to forego the incomes of children completing secondary school. By 1968, the national final year retention rate had increased to 26%. Final year school retention then increased steadily to over 70% in the 1990s.

In the 1940s, states spent only 21% of their school education budgets on secondary education compared to 79% on primary schools (Mathews 1972, p.80). By the early 1960s, the proportion of states' recurrent expenditure going to secondary schools had risen to 39%, and by 1973, almost 50% of school spending was allocated to secondary schools (Karmel 1973, table 4.10).

Australia's educational systems were placed under pressure by the influx of students resulting from the post-war baby boom. State secondary education systems, in particular, were ill prepared for the combined impact of the baby boom, higher rates of secondary retention, and post-war migration. Between 1963 and 1971, states increased their outlays on secondary education by 152% in real terms (Karmel 1973, table 4.10).

In 1957, the state directors of education, concerned about 'securing additional funds for the growing secondary school population' proposed to ask the Commonwealth for assistance in providing scholarships for students in senior secondary schools and technical education (Spaull 1987, p.105). In 1961, state education ministers, through the premier's conference asked the federal government for direct financial assistance to help meet the costs of education provision.

The Commonwealth responded in 1963 with the promise of 10 000 scholarships for senior secondary students and a capital grants program for school science facilities—amounting to some 12 million pounds in direct assistance to students and schools in its 1964–65 Budget. The senior secondary scholarship scheme provided an annual grant of 100 pounds towards fees and books and 100 pounds for living expenses, without a means test, to students at both private and state schools. An allocation of 10 million pounds for science facilities included 5 million pounds for secondary schools (both private and state) and 5 million pounds for technical schools.

In 1973, the Whitlam Labor Government initiated a major program of recurrent and capital expenditure that raised the Commonwealth's contribution from 10% of total schools outlays in 1971–72 to 24% of total outlays in 1975–76 (ABS 1977). However, state governments also increased their schools expenditure during the 1970s, so that the Karmel report's targets for expenditure on state schools were met several years earlier than expected. State governments are responsible for 86% of recurrent expenditure on government schools and 27% of funding for private schools.

Processes for determining funding priorities

The processes for determining schools funding vary between states and territories, but funding levels are largely driven by movements in the costs of provision, particularly teachers' salaries. In addition to the core funding provided to schools, state and territory education authorities run a range of programs to meet specific policy goals such as equity outcomes. In the public education system, most schools are funded on the basis of the number of students enrolled, at different funding levels according to the level of education. Secondary students are funded at a higher level than primary students.

The Commonwealth Government maintains an index of movements in the costs of government schools—the Average Government Schools Recurrent Costs (AGSRC) Index—in order to supplement its recurrent grants to public and private schools. Commonwealth funding for public schools is a fixed per capita rate for each student enrolled, with a higher rate paid to secondary students. Commonwealth funding for private schools differs according to the status of the schools.

Under the Commonwealth's new funding system, per capita grants for private schools in the Catholic system are set at a fixed proportion—56.25%—of AGSRC for at least five years. The remaining 30% of private schools receive grants based on the socio-economic status of their students' home address. The minimum entitlement per student is 13.7% of AGSRC and will be payable to schools with an average socio-economic status (SES) score of 130 or more. The maximum grant of 70% of AGSRC will be paid to schools with an average SES score of 85 or less. Schools in between this range will be paid on a continuum. All schools were guaranteed no loss in funding under this new funding system, introduced in 2001.

State governments provide approximately 27% of the public resources for private schools. The method of allocation differs between the states and territories. Most state and territory authorities have in place private school funding systems that mirror the framework of Commonwealth grants, with different levels of grant provided to different types of schools.

Competitive tendering

A small proportion of schools funding provided by the Commonwealth Government and state governments is available on the basis of competitive tender or application. This money would be discretionary to most providers, as the core budgets of schools are financed through recurrent grants. The provision of VET in schools may increase the level of involvement in competitive tendering.

VET in schools

The Senate inquiry into the quality of vocational education and training (2000, p.223) defined VET in schools as follows:

> *vocational education in schools is taken to include VET courses funded by ANTA, VET subjects taken for the final year certificates like the VCE and the HSC, and any other school-based activity which involves either structured workplace learning (SWL), including New Apprenticeships, part-time traineeships or work experience. It includes courses which are formally part of a school course but which may be taken, in whole or in part, at a post-school institution, usually a TAFE institute.*

The take-up by students of VET in schools has increased dramatically: from around 60 000 students in 1996 to an estimated 167 000 in 2000. Approximately 90% of secondary schools offer some VET programs (Senate 2000, p.225). There is variation among the states as to how they administer and support VET in schools. The Commonwealth provided $80 million from 1997 to 2000 to fund some delivery costs for apprenticeships and traineeships, and for developmental work on teaching materials and professional development. The Commonwealth also allocated an additional $200 million to fund associated programs, including the School to Work Program, Jobs Pathways Program, and the former Australian Student Traineeship Foundation (Senate 2000, p.224).

The financial responsibility for VET in schools is a matter of ongoing negotiation between the states and Commonwealth. States vary in the extent to which they provide funding from within total school education appropriations. Some funding for VET in schools is provided by the Commonwealth through the Enterprise and Career Education Foundation (ECEF). These grants contribute to the costs of co-ordination of local school–industry work-links only. The recurrent costs of provision must be met by the school systems and the students.

Schools that provide VET programs must decide whether they will offer these programs themselves or whether they will subcontract the programs to another VET provider (usually a TAFE institute). In order to do the former, schools must become accredited as a Registered Training Organisation (RTO) under the Australian Recognition Framework. Most TAFE institutes that provide training for VET in schools do so on a cost-recovery basis that does not usually include corporate services and other financial overheads. Stakeholders from TAFE institutes interviewed for this project suggested that TAFE institutes lose money from providing VET in schools.

Private providers

Private schools play a major role in the provision of senior secondary education, particularly in providing a route to university. In 2000, private schools enrolled more than 37% of students in the final two years of secondary school whereas they account for only 30% of the entire school population (ABS 2001b).

The role of private providers is supported by state governments, most of whom re-introduced recurrent funding for private schools in the late 1960s. All states provide recurrent funding to private schools and most operate interest-free loan schemes for school buildings.

During the 1950s, the Commonwealth provided substantial indirect support to private schools. In 1952 Prime Minister Menzies introduced a tax concession of up to 50 pounds per year for private school fees (Smart 1978, p.28). In 1954, the tax laws were amended to allow gifts to schools for building purposes as a tax-deductible item. The cost of the taxation concessions is impossible to determine. The tax deductibility of school fees was phased out in the 1970s, and interest subsidies were replaced with direct grants. Most state governments continued to

provide interest subsidies to non-government schools in the 1990s. The tax deductibility of donations to school building funds continues. In 1956 Menzies provided interest subsidies for capital expenditure by private schools to be built in Canberra (Tannock 1969, pp.457–460).

The distribution of total Commonwealth expenditure has shifted from state schools to private schools. In 1974, state schools received 71% of all Commonwealth funding and private schools received 27% of Commonwealth funding. By 2002, private schools will attract 68% of total Commonwealth schools expenditure whereas state schools will receive 32% *(Commonwealth Budget Papers 2000–01, no.3)*.

User choice

There is a high degree of user choice within the school sector. Students are entitled to attend their local school but usually have the choice of attending other public schools, depending on demand for places. Private schools are free to operate with minimal government regulation and, once established, are eligible for public subsidies. The provision of per capita funding for private schools means that the subsidy automatically follows the student. In the Catholic system, the level of subsidy is around 80% of the school's operating costs. In public schools, funding covers on average 95% of operating costs. Although the subsidies are not equal in value, a subsidy of between 35% and 80% follows students to the private school of their choice.

Institutional autonomy

All states and territories have in place funding arrangements that give schools some degree of autonomy over how funds are spent. The extent of financial devolution differs between each state. Private schools have autonomy over the allocation of their resources. However, there is very little institutional autonomy over curriculum and assessment which is controlled by state and territory governments.

Student contributions

Private schools charge up-front fees that represent between 20% and 70% of the cost of a student place, depending on the school. In some low-fee schools, particularly in the Catholic system, fee concessions are available to students in need.

In state schools, fees were levied for secondary education until the mid-1940s. During the 1980s, most state schools introduced systems of 'voluntary contributions' whereby parents are invited to donate a fixed amount to the school every year, ranging from $50 to $200. In some states these contributions are compulsory fees. In addition, students are required to meet the costs of books, materials and excursions which can amount to around $800 per year (Borthwick 1999, p.31).

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Appendix B—Vocational education and training

Trade schools grew out of orphans' schools and mechanics' institutes during the 19th century, often with the financial support of wealthy industrialists. State governments began to assume responsibility for funding the VET sector in the early 1900s. Generally, individual colleges were created arising from local support to meet specific needs. This led to the formation of a semi-autonomous government instrumentality to guide this development. Eventually, the semi-autonomous bodies were replaced by the state departments of training (Fooks 1994, p.30).

The Commonwealth generally resisted states' requests for TAFE funding until the Second World War, when the Commonwealth invested heavily in technical education in a belated attempt to develop skilled manpower for war-time industries (Ling 1984; Tannock 1969, p.209). In 1964, the federal government provided $10 million for capital works in technical colleges. Grants of a similar magnitude were made annually until 1974 (Fooks 1994, pp.33–35). The Kangan report in 1974 finally led to Commonwealth recognition of TAFE as an educational sector. The Kangan review 'provided the philosophical and policy basis for the development of a distinctive identity for the technical and further education system in Australia' (Anderson 1998, p.3). Kangan laid the foundation for the development of a national strategy for TAFE—although the systems remained quite different from state to state (Fooks 1994, p.38). The Commonwealth TAFE Commission 'fought for and won the right to describe TAFE as part of tertiary education' (Fleming 1994, p.46). Kirby (1994, p.90) states that: 'In advancing the funding needs of TAFE, the (Kangan) report resulted in modern colleges, library resources, counselling services, curriculum development and staff development programs'. The Commonwealth Government funded much of this expansion.

The national training reform agenda

The Commonwealth Labor Government's national training reform agenda sought to tie TAFE more explicitly to the training needs of industry (see one of the key reports that set the new policy agenda—*Skills for Australia* by Ministers Dawkins and Holding (1987, p.30). This process was linked to reform of industrial awards, which linked work classification levels to skill levels and included references to training (Goozee 1993; Marginson 1993, p.153; Senate 2000, p.23). The Commonwealth and state ministers responsible for VET endorsed a competency-based system in 1989, and established the National Training Board whose brief was to prepare competency standards in each industry area. The ministers also committed themselves to a national training market and 'decided to adopt a nationally consistent approach to the recognition of skills, accreditation, recognition of training providers and credit transfer' (Marginson 1993, p.154). The main features of the reforms to VET during the 1990s are outlined in the Commonwealth's White Paper, *Working Nation* (Keating 1994):

- an industry-led system, with industry determining training outcomes, and training based on competency outcomes rather than time spent in the system
- pathways through various sectors of education and training
- access to industry-oriented training
- a competitive market in technical education and training

Mechanisms for determining funding priorities

The Australian National Training Authority was established by an Act of Parliament in 1992 and commenced in 1994. It is the primary national decision-making body of the VET system, and was established to provide national coherence to state-based systems. It reports to an ANTA Ministerial Council (MINCO) that consists of all training ministers from the Commonwealth Government and state and territory governments. The Commonwealth provides funds through ANTA to the states and territories for the delivery of training in public and private VET providers for recurrent expenditure and for infrastructure. This money is provided subject to agreement by MINCO to annual state and territory training plans. Unlike higher education where the Commonwealth directly negotiates with the institution, the Commonwealth Government does not usually have a direct relationship with VET providers (Borthwick 1999; Senate 2000; Wheelahan 2000a).

Industry Training Advisory Boards (ITABs) at the state level advise state training authorities of the appropriate needs of industries that are aggregated and prioritised. The state authority then presents the ANTA Board with an Annual VET Plan. Commonwealth funds are allocated to the states after the ANTA Ministerial Council has reached agreement on the Annual VET Plans. This funding is primarily allocated to provide training places in public and private sector VET programs. State governments allocate their own resources to public and private providers, either directly or through contestable arrangements including user choice (Borthwick 1999, p.19).

The Commonwealth also provides funds for national projects that further the national strategy as part of the triennial ANTA agreement. In 2000 the Commonwealth provided almost $202 million for industry-based skill centres, skill centres for school students, facilities for Aboriginal and Torres Strait Islander communities and students, national projects for new technologies and ANTA national projects. This last allocation includes funds for ITABs, Group Training Schemes, Equity programs, ACE projects and the development of training packages. The Commonwealth meets the full cost of ANTA's operations (Borthwick 1999, p.19; Senate 2000, pp.17–20).

The Commonwealth also provides incentives for employers who take on employees through the new apprenticeship scheme. Some $354 million was allocated to employers in 1999–2000 in incentives. This is the largest Commonwealth allocation for VET outside of recurrent and capital funding (Senate 2000, p.19).

Competitive tendering

Most states and territories now 'purchase' training from providers, rather than directly delivering and administering training. To encourage the development of a training market, increasing amounts of funding have been made publicly contestable, generally through tendering arrangements. An increasing proportion of VET program funding—around 10%—is allocated on a competitive basis to TAFE institutes and other RTOs, such as community-based providers and private organisations. The states determine programs for competitive tendering or preferred supplier arrangements—under which contracts to provide training are provided on a longer—term basis (Borthwick 1999, p.20).

Growth through efficiencies policy

The 'growth through efficiencies' policy was included in the 1998–2000 ANTA agreement. The Commonwealth Government injected a substantial increase in VET recurrent funding in 1991, and provided $70 million in growth funding annually from 1993 to 1997. These funds were provided to meet increased delivery within the VET system.

In the 1998–2000 ANTA agreement the Commonwealth removed the annual growth funding, and froze its expenditure at 1997 levels in real terms for five years. States were required to meet increased demands and to expand the system through finding 'efficiencies'. States and territories were not happy with these arrangements but agreed to them to ensure funding stability for the term of the agreement (Senate 2000). An extra $230 million is to be provided by the Commonwealth Government under the Australian National Training Authority Agreement (2001–2003) settled last year. Extra support has also been provided by the government for the training needs of disadvantaged Australians.

User choice

User choice is a funding arrangement for off-the-job training for new apprenticeships that enables the client to choose a provider from either the public or private sector. Public funds-based on common costing principles—are then allocated to the chosen provider.

Private providers

It is estimated that there are now over 3000 private and industry providers registered as training organisations in Australia (ANTA 1998, p.8). Nevertheless in 1999, the great majority of VET's 1.65 million students (75%) were studying through TAFE institutes, while their study hours (or SCHs) comprised 85% of all VET student contact hours (NCVER 2001a).

Institutional autonomy

VET delivery is funded on the basis of SCHs, referred to in different ways in each state and territory. One hour of contact per student equals one funded SCH. VET providers negotiate with the state training authority the number of SCHs they will deliver, the areas in which it will be delivered, and the AQF levels at which programs will be offered. There are varying degrees of autonomy allowed VET providers in how they allocate these hours internally. State training authorities impose different types of accountability arrangements on VET providers.

States differ in their expenditure per publicly funded SCH. The following table shows the recurrent expenditure per publicly funded annual hour curriculum for each state and for Australia for 1999.

Table 6: Cost per annual hour curriculum in each state and in Australia in 1999

State	$ per AHC
New South Wales	
Victoria	
Queensland	
South Australia	
Western Australia	
Tasmania	
Northern Territory	
Australian Capital Territory	
Australia	

Source: Burke 2001, p.11

Care must be exercised in drawing conclusions about the costs of implementation in each state. It is argued that it is more difficult to deliver VET in states and territories such as Western

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Australia, the Northern Territory and Queensland, given the population spread and density in those states (Burke 2001, p.10).

Many VET practitioners interviewed argued that the profile process was overly restrictive and that TAFE institutes needed much more autonomy to decide how to meet the agreed objectives in their funding agreements. This would, they argued, give them greater scope for collaborating with other sectors, but also greater scope in shaping educational provision to meet their regional industry and employment needs and community service obligations. In contrast to this position, one stakeholder said that:

> *The average TAFE director is trying to meet increasing demands with static funding. It is natural for them to say they need more money and then leave us alone. It doesn't work like that. We need to invest more in skills but we also need reform.*

Student contributions

TAFE students are required to pay their fees at enrolment, unless they fall into one of the exempt or discounted categories. The amount of fees students are required to pay varies from state to state as each state or territory government sets the fee for that state. Student fees are calculated on an hourly rate, and in most states there is a maximum fee chargeable in any one year. For example, if the hourly rate is $1.00 per hour, and a student enrols in subjects or modules totalling 225 hours, their fee will be $225.00. The TAFE tuition fee arrangements are different in each of the states and territories. For example, in 2000, in New South Wales the maximum fee chargeable was $610 for courses at associate diploma level and above, and the maximum fee for courses at levels lower than associate diploma was $210 per year. In 2000, in the Northern Territory, the cost was 70 cents per SCH compared to 81 cents per hour in Queensland with a maximum of $625 in one year, and 51 cents per SCH with a maximum of $445 in one year in South Australia. In Tasmania and Victoria the cost was $1 per SCH and in Western Australia it was $1.15 per SCH with a maximum fee of $840 per year.

In addition to course fees, TAFE students are also liable for other fees. Most institutions charge an amenities fee or a general services fee. Some states charge a resources fee and an enrolment fee. Some courses have materials fees ranging from $30 to $150 per annum. It is possible that in some states a full-time TAFE student may be required to pay up to $1000 in fees before they commence their studies.

Fee exemptions or discounts are available to students according to need. These vary from state to state. In Victoria, students who are on the Newstart or Youth Allowance and who have a jobseekers card pay a maximum annual tuition fee of $40. Students on the Youth Allowance without this card or those on Austudy are charged half the full fee, with the maximum fee being $250. Significant numbers of TAFE students are granted discounts or exemptions. In some states this may be 20–30% of all TAFE students (Borthwick 1999, p.33). Most states have arrangements to help students who cannot afford to pay all fees all at once. Payment by instalments is possible in some states, as is access to student loans, although the period of time in which students are required to pay the loan is limited and is usually not contingent on income. Students must also have the level of knowledge required and skills necessary to seek out and initiate processes to enable them to access loans.

Students in private providers generally pay up-front fees for the full cost of their course, which can range from $5000 to $10 000 per course (Borthwick 1999, p.33). Varying degrees of autonomy exist between the states as to the proportion of fee-for-service income generated by TAFE institutes that remains within the institute or is sent to the state training authority (Senate 2000, p.20).

Appendix C— Higher education

Universities originated in Europe almost a thousand years ago. As people travelled from distant lands to be in the company of a renowned scholar, the university was established to offer a measure of legal protection to foreigners. Thus the first 'community of scholars' established in Bologna was an autonomous institution.

The first Australian universities were established by the colonial governments in New South Wales and Victoria during the 19th century. These universities were established to promote 'higher learning'. This distinctive form of provision provides broad undergraduate training in the arts and sciences, followed by more specialised post-graduate research. Soon after they were established, however, Australian universities began to provide vocational training for the professions. Professional training now dominates university provision in Australia, at both the undergraduate and post-graduate levels

In keeping with traditions dating back to the 12th century, the Acts of state parliament that established state universities guaranteed them institutional autonomy. This freedom from state control enabled the universities to seek funding from sources other than state governments, particularly the Commonwealth Government after Federation in 1901.

The first Commonwealth funding for universities was for a tropical medical research project in 1907, justified under its Constitutional power for Quarantine. Substantial programs of investment in medical and scientific research during the 1920s and 1930s followed this. In 1939, 40% of university funds were provided by governments, and the remainder came from private endowment (22%), investment income (2.5%) and student fees (34%) (Mathews 1972, p.86).

In 1942, the federal Labor government established a Universities Commission to administer a comprehensive scheme of Commonwealth Financial Assistance to university students to assist in the war effort (Tannock 1969, pp.292–309).

The Universities Commission lobbied for increased Commonwealth assistance to tertiary education (Tannock 1969) so that by 1949, the universities' total income had trebled in a decade, and 54% of their operating income came from government. Annual Commonwealth funding for universities increased from $71 000 in 1939 to $1.2 million in 1949 in constant prices (Mathews 1972, p.86).

When the funds for post-war reconstruction began to dry up in the late 1940s, the Universities Commission lobbied for the continuation of Commonwealth financial assistance to the higher education sector (Tannock 1969, p.443). In response, Chifley appointed a committee of inquiry in 1949, headed by Professor RC Mills, Chair of the Universities Commission. The Mills review was greeted favourably by the new Prime Minister Menzies, who extended its terms of reference to attend to the needs of university residential colleges. On 15 November 1951, Menzies introduced a landmark *States Grants (Universities) Bill*, which installed a permanent system for funding universities.

Within a few years of receiving funding under the *States Grants (Universities) Act 1951*, the Australian Vice-Chancellors' Committee published a document entitled *A Crisis in the finances*

and development of the Australian universities, which demanded a national plan to fund further growth in the sector. Menzies appointed another committee of inquiry to review the needs of universities headed by Sir Keith Murray, the chair of the Universities Grants Commission of Great Britain. The Murray report recommended a major expansion of federal funding for universities and the establishment of an Australian Universities Commission. The Menzies Government adopted the Murray Committee's recommendations in full and in 1959, established an Australian Universities Commission which 'became the most powerful agency of the federal government's program of aid to the tertiary educational institutions' (Tannock 1969, p.482). Over the next three years, the public resources provided to universities doubled. By 1962, more than 80% of the universities' total income was sourced from government (Mathews 1972, p.86).

In 1973, the federal Labor Government assumed full responsibility for the funding of Australian universities establishing a Commonwealth Tertiary Education Commission to oversee funding for universities and colleges of advanced education.

The unified national system

In 1989, the federal Labor Government abolished the Commonwealth Tertiary Education Commission and amalgamated colleges of advanced education into universities under a unified national system of funding administered by the Commonwealth Department. The main features of the unified national system were:

- the abolition of the 'binary system' of universities and colleges of advanced education
- block operating grants to be allocated to universities on a rolling triennial basis
- institutions' internal resource allocations to be based on an educational profile agreed annually with the Commonwealth
- the introduction of student contributions

Processes for determining funding priorities

The allocation of funding to each institution is determined on the basis of a formula determined in 1989 called the Relative Funding Model plus growth funds allocated since then. The Relative Funding Model was the product of a one-off study of the mix of disciplines and levels of study in each university at that time. Student load was distributed between five discipline clusters, with highest relative weighting (2.7) given to courses with the highest teaching costs. A higher relative weighting was also given to post-graduate studies and research degrees. On the basis of their student mix at the time of the Relative Funding Model exercise, universities are provided with a block-operating grant on a rolling triennial basis. Thus the funding received by a university in any given year is based on the previous year's grant, adjusted for the flow-through effects of previous funding decisions—such as growth funding.

Universities are required to allocate this block-operating grant in accordance with an agreed institutional profile, negotiated annually with the Commonwealth. The profile defines the institution's broad mission and specific goals as a basis for the allocation of resources and assessment of performance. Enrolment targets are specified in the profiles and institutions can be penalised for failing to meet these targets. Universities who over-enrol students may be eligible for marginal funding to meet the marginal costs associated with over-enrolments.

Several stakeholders acknowledged that universities' operating structures had changed and that student load between disciplines and course levels had shifted significantly since the Relative Funding Model was developed. But there are conflicting views within the sector about whether

a new Relative Funding exercise should be undertaken. These concerns are based on the fact that any re-distribution of resources between institutions—if not accompanied by a significant increase in funding—will inevitably create 'winners' and 'losers' within the sector. Nevertheless there is widespread concern that the formula underpinning the block grants allocated to institutions no longer reflects their real costs—if it ever did. 'The Relative Funding Model was something of a "rough and ready" exercise at the time, and universities' cost structures have changed dramatically since then' (stakeholder interviewed for this project).

Competitive tendering

Some funding in the higher education sector is provided on a project basis through competitive tendering or application to DETYA. For example, in its recent Innovation Statement, the federal government promised to fund 2000 new places, on the basis of applications from universities.

> *There is a growing tendency within this government to put dollars in smaller and smaller parcels that are application-driven and come with stringent accountability requirements. Sometimes it costs the university as much to apply for the money as the grant is worth.*
>
> (Stakeholder interviewed for this project)

Private providers

Government subsidies are mainly provided to public universities with the exception of private providers such as Avondale College and Notre Dame University that receive Commonwealth subsidies and are eligible for HECS places.

Australia's small number of private higher education institutions accounts for approximately 3.4% of total student load. Courses offered by private higher education institutions are accredited at the state and territory level. In contrast, public universities accredit their own awards. Some private providers have made commercial links with publicly funded institutions and offer the degrees from public institutions.

Private higher education courses are concentrated at the post-graduate level. Of private higher education provision, 47% is at the post-graduate level, compared to only 20% in public institutions (Watson 2000).

User choice

As government subsidies are limited to publicly funded institutions and student load in each institution is determined by government, there is no scope for vouchers or user choice in the current funding arrangements.

Institutional autonomy

Universities are generally free to determine the method of allocating funding within institutions. Some universities allocate funding according to the Relative Funding Model, but this has become increasingly untenable as cost structures have changed during the decade.

The funding sources for higher education have diversified during the 1990s as the Commonwealth permitted universities to charge full fees for some courses, mainly at the post-graduate level. Over 16% of university operating expenditure now comes from fees and charges, including fees for overseas students. Commonwealth grants now account for just over

half of universities' operating income (DETYA 1999a). Since 1996, Commonwealth funding for higher education has declined.

> *The introduction of HECS was intended to fund the expansion of the higher education system by providing additional income from private sources. This happened for a while, but since 1996, HECS revenues have gone into the Commonwealth's pocket because the Commonwealth has reduced its share of funding in real terms.*
>
> (Stakeholder interviewed for this project)

This stakeholder commented that the changed mix of funding between public and private sources meant that universities had less discretionary funding or 'patient capital' that could underpin long-term planning. The substitution of public funding with income from student fees, for example, meant that the income was 'tied' to the specific faculties that attracted those students. The change in funding mix also contributed to inequalities in resources between faculties that could attract external income and those that could not.

The proportion of higher education revenue sourced from government is now comparable to what it was during the 1940s. The one source of university revenue that has declined markedly in significance since 1939 is private endowments through donations or bequests. Formerly comprising 22% of universities' total revenue, private endowments now account for only 1.4% of operating revenue for universities. This is illustrated in the table 7.

Table 7 Universities' operating revenue by source 1939 and 1998 (%)

Source	Year	
	1939	1998
Government	50.0	51.8
Private endowment	22.0	1.4
Investment income	2.0	6.8
Student fees	21.0	21.8
Other	5.0	18.2

Sources: Anderson 1972; DETYA 1999a

Student contributions

Between 1974 and 1989, higher education in Australia was almost wholly subsidised by the federal government. The Coalition Government of 1975–83 made no important changes to university financing. However, the Labor Government introduced the so-called Higher Education Administration Charge (HEAC) in 1986. HEAC was an up-front fee that heralded a system of universal user-pays charges for higher education. The charge was small—$250 (in 1986 terms)—and did not vary with respect to course load. There is some evidence that it had a small negative effect on mature-aged part-time enrolments.

In 1990, the federal government introduced the Higher Education Contribution Scheme (HECS). Designed to raise the level of student contributions to the cost of private education provision, HECS is an income-contingent loans scheme payable through the taxation system. Charges under HECS do not represent the full cost of the course and the government subsidises around 66% of the course cost (Borthwick 1999). Under HECS, students are liable for a proportion of their tuition costs, for which payment is deferred until the recipient reaches a personal income threshold. Repayments are then collected through the tax system and returned to universities by DETYA. In 1998, 17.2% of universities' operating revenue was from HECS repayments.

Before 1997, all higher education students were charged the same level of HECS. Students commencing higher education courses from the beginning of 1997 have been charged differing

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levels of HECS depending on the discipline in which they are studying. All higher education disciplines have been grouped into three bands, based loosely on the estimated future earnings of graduates. The yearly fee for each band is: Band 1-$3643; Band 2-$4932; and Band 3-$5772. During the 1990s, the earnings threshold for repayment of HECS was also lowered.

The government sets the level of HECS fee, and limits the number of HECS places in each institution. During the 1990s, universities have been allowed to charge full-fee places for Australian students. Universities were already permitted to charge full fees for post-graduate courses.

Although the HECS system is widely praised as the most equitable means of collecting student contributions, stakeholders were critical of the government's role in limiting HECS places and in determining the level of the HECS charge. It was argued that institutions would be better placed to set their own fees that could be recouped by HECS charges on a full-fee basis. This is the arrangement that has been developed for post-graduate HECS places announced in the Commonwealth's Innovation Statement.

In its innovation statement, *Backing Australia's ability,* released in January 2001, the Commonwealth announced the introduction of a post-graduate education loans scheme, similar to HECS. The scheme will allow students to take a HECS-style loan for the full-fee of their post-graduate course, to be repaid according to the HECS repayment arrangements, after students have repaid their undergraduate HECS liability. The government's estimate of the cost of the scheme in foregone interest is $1 billion over five years.

As the post-graduate loan repayment begins a long time after the debt is incurred, there is the potential for some students to receive a substantial subsidy from the government. Assuming a charge of $10 000 for a two-year post-graduate course, the net present value of the debt to be repaid after seven to eight years would be between $5329 and $5841. Compared to an up-front payment of $10 000 for a post-graduate course, the implicit subsidy in the federal government's post-graduate HECS scheme could be between 35% and 45%. However, for many students the subsidy will be quite small. For those undertaking study part-time while earning, the subsidy will be between 10–15% (Chapman 2001). People on high incomes undertaking work-related training may also choose to pay full fees and claim the cost as work-related educational expense under the tax system. The measure has the benefit of removing the disincentive associated with up-front fees for post-graduate courses undertaken by people on low incomes.

Appendix D— Adult community education

Adult community education is characterised by non-institutional providers such as community-based and not-for-profit non-government agencies as well as national organisations such as the University of the 3rd Age. These providers operate in a range of institutional settings, such as learning centres, community education centres, neighbourhood houses, churches and other community facilities. A Senate committee described the purpose of adult education as meeting 'the aspirations of ordinary men and women for some form of education' (SEETRC 1991). There is no precise definition of ACE across all states and territories; however, the National Policy on ACE proposed the following defining features of ACE provision: that it is learner-centred, responsive to community needs, accessible and inclusive, diverse, varied and flexible (MCEETYA 1997).

Adult community education has very diverse roots, developing over two centuries through workers' associations, trade unions and political parties as well as universities, Mechanics' Institutes, Schools of Mines, Schools of Arts and Libraries. Foley and Morris point out that the Victoria Socialist Party was 'a leading adult education body in Australia' between 1905 and 1930. Its regular Sunday lectures on topics as diverse as Buddhism, Socialism and Science attracted up to 1000 participants (Foley & Morris 1995, p.111).

Although ACE is typically associated with non-accredited short courses, the adult education movement has strong historical links with work-related training. For example, the Sydney Mechanics School of Arts (SMSA)—established in 1833—offered courses in commercial, scientific and cultural subjects. In the 1870s, the SMSA established the Working Man's College that became the Sydney Technical College in 1884 (Foley & Morris 1995). In 1998, 15% of VET enrolments (3.8% of total module enrolments) were in community providers (NCVER 1999a).

Government involvement in adult education has been sporadic. Adult education provided through University Extension Boards—established in the 1890s—was funded partially by government until the late 1960s (Foley & Morris 1995). During the Second World War, the Australian Army Education Service provided comprehensive adult education. The Council of Adult Education was established by the Victorian State Government in the post-war period. In the early 1990s, the state governments in New South Wales and Victoria established statutory boards of adult education to represent and support community providers.

Today community providers in New South Wales provide the following range of services:

- general adult education
- accredited training
- contracted training provision
- traineeships
- industry-specific training
- enterprise training contracts
- small business training
- assessor training
- recognition of prior learning

- accredited language and literacy
- employment services

(NSW Board of ACE 2001)

Processes for determining funding priorities

The Commonwealth provides no direct funding for the ACE sector other than a grant-in-aid of $750 000 per year. Two-thirds of this funding is allocated to the sector's peak body, Adult Learning Australia, through ANTA and the remaining third is spent on special projects through MCEETYA.

In New South Wales and Victoria, Boards of Adult Education were established in the early 1990s. In both states, regional committees or clusters also have a role in co-ordinating ACE funding at the regional level. The Boards of Adult Education provide core funding to ACE providers, most of whom existed at the time that the boards were established. In New South Wales, newcomers to the ACE sector are not eligible for core funding on the grounds that the amount of money is too small to be spread further. Over the decade, the amount of money available to community providers has increased through avenues such as the open training market, which enables community providers to register as training providers and access funding for vocational education.

In New South Wales, for example, ACE funding doubled between 1992 and 1995, but the mix of funding changed. Core funding for providers through the main provider grant fell as a proportion of total funding from 67.7% in 1992 to 53.2% in 1995. By 1995, VET funding accounted for 25% of ACE revenue in New South Wales (McIntyre, Brown & Ferrier 1996, p.11).

Competitive tendering

Community providers routinely compete for access to funding on a program basis from a range of sources at the Commonwealth and state level. For example, competitive tenders are let for:

- accredited VET programs
- labour market programs
- adult literacy programs
- adult learning and basic education
- adult migrant English programs

To compete successfully for funding on a project-by-project basis requires substantial infrastructure and resources. 'Competitive tendering by its very nature tends to favour those organisations which have the resources and business acumen to enable them to develop a successful tender' (SEETRC 1997, p.29). The main drawback of project-based funding is that it undermines long-term planning and the development of infrastructure by providers. Yet long-term planning is often essential to get positive outcomes from educational services for disadvantaged groups. A stakeholder interviewed for this project commented that community providers have strong incentives to target full-fee clients from higher socio-economic groups—where there is strong demand for continuing education—rather than people from disadvantaged backgrounds. This is in spite of the fact that the New South Wales Government uses equity criteria in its ACE funding formula.

> *It is assumed that ACE will 'mop up' equity problems. But the pressure of working within a user-pays system means that community providers must orient programs to those who can pay. Efforts to be an equity provider are not rewarded.*
>
> (Stakeholder interviewed for this project)

Private providers

Most ACE delivery agencies are 'private' providers in the sense that government does not manage them. However, government support for ACE is generally confined to the community-based and managed, and not-for-profit providers who are the dominant group in the sector. In New South Wales, when the Board of Adult Community Education was established in 1991, Evening Colleges that had previously been the management responsibility of the Education Department, were given operational autonomy, community ownership and the power to charge fees (McIntyre, Brown & Ferrier 1996, p.7).

User choice

ACE funding is not systematically provided on a user choice basis. However, some recipients of program funding would have a choice of institutions to attend.

Institutional autonomy

The extent to which community providers have autonomy in the internal distribution of government funding depends on the programs under which they are funded and differing accountability requirements between the states and territories.

Student contributions

Most ACE students pay full fees for courses, although the courses are usually provided at a low cost. In courses funded by government programs that are targeted at equity groups, fees would not usually be charged. The charging regime for VET courses differs between the states and territories.

Appendix E— List of people interviewed

1. Mr David Atchoarena, Programme Specialist, International Institute for Educational Planning, UNESCO
2. Ms Deborah Hegarty, General Manager, Policy and Performance Department of Training and Employment, Western Australia
3. Associate Professor Gerald Burke, Monash University
4. Professor Helen Praetz, Pro-Vice-Chancellor and Director TAFE, RMIT University
5. Mr John Mullarvey, Chief Executive Officer, Australian Vice-Chancellors' Committee
6. Dr Kaye Bowman, ANTA
7. Mr Peter May, ANTA
8. Ms Leonie Doyle, ANTA
9. Mr Malcolm Goff, Chief Executive Officer, Challenger TAFE, Western Australia
10. Ms Meredith Sussex, Director, Office of Post-compulsory training and tertiary education, Victoria
11. Professor Meredith Edwards, Deputy Vice-Chancellor, University of Canberra
12. Professor Peter Kirby, AO
13. Mr Peter Veenker, Chief Executive Officer, Canberra Institute of Technology
14. Associate Professor Richard Teese, Director Educational Outcomes Research Unit, University of Melbourne
15. Professor Simon Marginson, Monash University
16. Mr Tom Dumbrell, Principal, Dumbrell Consulting Pty Ltd
17. Mr Tony Brown, Chief Executive Officer, Adult Learning Australia
18. Mr David Phillips, Principal, Phillips Curran Pty Ltd
19. Mr Michael Gallagher, First Assistant Secretary, Higher Education Division, Commonwealth Department of Education, Training and Youth Affairs
20. Ms Helen Dempster, Director, VET Policy and Review, Commonwealth Department of Education, Training and Youth Affairs
21. Mr Richard Carter, Deputy Director, TAFE Division, Victoria University
22. Professor Jim Falk, Deputy Vice-Chancellor, Victoria University
23. Ms Robyn Jackson, Executive Officer, Arts and Recreation Training, Victoria
24. Mr Geoff Spring, CEO, Department of Education and Training, SA
25. Mr Geoff Wood, Director, SA TAFE

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